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ABSTRACT

This document contains proceedings of Senate hearings before a subcommittee of the Committee on Appropriations on H.R. 2127, an act making appropriations for the Departments of Labor, Health and Human Services, Education, and other related agencies for the fiscal year ending September 30, 1996. The document contains testimonies, answers to committee questions, and prepared statements from: Robert Reich, Secretary of Labor; Donna Shalala, Secretary of Health and Human Services; Richard Riley, Secretary of Education; Harold Varmus, Director of the National Institutes of Health; and representatives from other federal agencies. Secretary Riley's testimony includes comments on proposed revisions from Department of Education Programs, the streamlining of Department services and functions, the features of the 1996 budget request, standards-based reform, and preparing students to work in the Information Age. A subject index and list of witnesses, communications, and prepared statements are included. (LMI)

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S. HRG. 104–281, PT. 2

Senate Hearings

Before the Committee on Appropriations

Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations

***Fiscal Year* 1996**

104th CONGRESS, FIRST SESSION

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H.R. 2127

PART 2 **(Pages 1–595)**

DEPARTMENT OF EDUCATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENT OF LABOR
RELATED AGENCIES

EA 027 521

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S. HRG. 104-281, PT. 2

DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

H.R. 2127

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES, FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1996, AND FOR OTHER PURPOSES

Part 2 (Pages 1–595)

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Department of Health and Human Services
Department of Labor
Related agencies

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DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

TUESDAY, MARCH 7, 1995

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:12 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Arlen Specter (chairman) presiding.

Present: Senators Specter, Harkin, Bumpers, and Kohl.

DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

STATEMENT OF HON. ROBERT R. REICH, SECRETARY OF LABOR

OPENING REMARKS OF SENATOR SPECTER

Senator SPECTER. Good afternoon, ladies and gentlemen. The Subcommittee on Labor, Health, Human Services, and Education begins hearings on fiscal year 1996 appropriations requests with testimony from Secretary of Labor Robert Reich.

Let me first acknowledge the presence of the distinguished ranking member. We have reversed seats. It has always been a pleasure to work with Senator Harkin in any capacity and it has been a partnership and it will be a partnership. We have worked very closely in a bipartisan manner on the very difficult issues which confront three very, very important Departments: Labor, Health and Human Services, and Education. And I know that Senator Harkin and I will continue to do just that.

The Labor Department budget totals almost $12 billion for discretionary programs, which is a net increase of some $936 million. The Labor Department also has proposed 2 rescissions amounting to $5.1 million, which the House has raised to 27 rescissions for a total of $2.3 billion.

Secretary Reich and I talked briefly on the phone yesterday and we will be discussing that as well as the budget for fiscal year 1996.

Staff has prepared charts which set the stage. The first bar chart shows the Federal budget deficit projected by the administration through the year 2000. As you can see, the deficits stay at nearly $200 billion annually for the next 5 fiscal years, resulting in a $1 trillion increase in deficit spending by the turn of the century. Congress will undoubtedly have a great deal to say about the deficits.

The next bar chart displays the major changes in the Labor Department's discretary budget request, which results in the net increases I've mentioned of $936 million over fiscal year 1995.

The third chart, the line graph, displays the President's budget projection of Labor Department discretionary spending proposals from 1994 through the year 2000. It reflects outlays or the actual spending, which for many Labor Department programs lags a year behind the Federal appropriations.

PREPARED STATEMENT

I have a very lengthy, erudite statement prepared by very intellectual, extraordinary staff and, in the interest of time and oncoming votes and in deference to my ranking member, I will put the balance of it in the record and turn at this point to Senator Harkin.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ARLEN SPECTER

This afternoon, the Subcommittee on Labor, Health and Human Services and Education begins hearings on fiscal year 1996 appropriations requests, with testimony from Secretary of Labor Robert Reich.

The Labor Department budget totals $11.97 billion for discretionary programs. This is a net increase of $936 million, or 8.5 percent above fiscal year 1995. The Labor Department also has proposed two small rescissions, amounting to $5.1 million, which the House has raised to 27 rescissions saving a total of $2.3 billion. I look forward to Secretary Reich's comments on the House rescissions.

First, let me set the stage by referring to the charts you see on display. The first bar chart shows the Federal budget deficits projected by the Administration through the year 2000. As you can see, the deficits stay at nearly $200 billion annually for the next five fiscal years—resulting in a trillion dollar increase in deficit spending by the turn of the century. Congress will undoubtedly have a lot more to say about $200 billion deficits as far as the eye can see, and we are likely to see greater recognition that substantial reductions in the size of government are necessary.

The next bar chart displays the major changes in the Labor Department discretionary budget request, which results in a net increase of $936 million over fiscal year 1995.

The third chart, a line graph, displays the President's budget projection of Labor Department discretionary spending proposals, from 1994 through the year 2000. It reflects outlays, or the actual spending which for many Labor Department programs lags a year behind the Federal appropriation. Thus, the peak spending of $14.3 billion in fiscal 1997 would be the result of appropriations increases requested for fiscal 1996. As you can see, for fiscal year 1998 through 2000, the Department's outlay totals decline, reaching $13.3 billion in the year 2000. This means cutbacks are around the corner. I wrote Secretary Reich about this matter last week, in anticipation of this hearing, expressing my concern that the rapid build-up of investment programs in fiscal year 1996 may not be sustainable in the outyears. Even if sustainable, I am concerned about substantially jeopardizing other important Labor Department programs, such as adjudication of claims for Black Lung benefits and timely processing and payment of unemployment insurance. This is a matter I would like to discuss with the Secretary, following his opening remarks and statements of Committee members.

The budget of this Subcommittee is extraordinarily difficult and there are many items which raise my concern. I am concerned that the House action on rescissions appears to be the meat-axe approach, while my approach is to use a scalpel. We have an extremely tough job ahead of us, Mr. Secretary, and I know we can count on your cooperation and you can count on ours; we will work together in the coming months.

Next I will turn to Senator Harkin, the Subcommittee's ranking member and former Chairman for the last 6 years, for whatever opening comments he may have.

OPENING REMARKS OF SENATOR HARKIN

Senator HARKIN. Thank you very much, Mr. Chairman. I will respond in like manner by putting my statement in the record.

I first want to congratulate you, Senator Specter, for chairing this inaugural budget hearing as the chairman of the Labor, Health and Human Services, and Education Appropriations Subcommittee. We have indeed changed chairs and roles, but again I have enjoyed a very close working relationship with you, both professionally and personally. We have been a great team and a partnership in this effort. We try to do everything as bipartisan as we possibly can. I cannot remember one partisan problem that we have had in the past, and I want to thank you for that.

We have had a very close and cooperative relationship in the past and I know that, with you as chair, we will have that same relationship over the next 2 years.

That was sort of a joke, you see, 2 years; 2 years and I get to reverse the role. Now, that may not mean exactly what everybody thinks. It may mean that you may go on to someplace else. You never know. But it has been a very close friendship and I really appreciate all the support and help you and your staff gave me when I was chair. It is also a way of publicly stating that I and my staff will reciprocate. We will give you every bit of support and help we possibly can.

Secretary Reich, again thank you for all of your leadership and stewardship of the Department of Labor. You have just been outstanding in terms of your leadership in modernizing the American work force by upgrading the skills, the education, and the opportunities available to workers across the Nation.

What you have set forth as the goals for the work force of America will indeed place us on the right path for the year 2000 and beyond, and again we just have to try to meet our responsibilities to make sure we can come up with the necessary funds and finances to make sure we upgrade the American workplace.

Thank you very, very much, Senator Specter.

Senator SPECTER. Thank you, Senator Harkin.

When Senator Harkin talked about 2 years, we do not deal in double entendres. That was either a triple or quadruple entendre, and I will not go into the details.

There has never been any partisanship between Senator Harkin and me. The only mild disagreement we had was when I put an amendment regarding Haiti on our appropriations bill last year. Senator Harkin thought that he was on the wrong committee.

The floor is yours, Mr. Secretary. Welcome.

SUMMARY STATEMENT OF HON. ROBERT REICH

Secretary REICH. Thank you very much, Mr. Chairman. In the interest of time, with your permission, I will submit my formal statement for the record and I will talk very briefly, if I may, Mr. Chairman, and other members of the distinguished committee.

Let me talk first of all about the 1995 rescissions, because I am very concerned about them, and let me tell you why. The rescissions for the Department of Labor in the House-passed rescission bill, $2.3 billion from the Department's activities in 1995. That $2.3

billion, I have got to say, is a major whack at young people, particularly disadvantaged young people.

A big chunk of that, $1.7 billion, is for summer jobs. Now, when we talk about summer jobs for young people we're talking about disadvantaged young people on the streets. Their choice is essentially either a job or being on the streets during the summer.

We have had that summer job program evaluated and reevaluated by the inspector general, by GAO, and by consultants who have come in and looked at it and interviewed employers and employees and summer people, and we have found that it is a good program. It provides worthwhile, meaningful job experiences for those kids.

And because of what the House did, 1.2 million disadvantaged, poor young people who want jobs will not have jobs in the summer of 1995 and the summer of 1996. Now, remember these are kids who want to work. These are not kids who do not want to work.

Last summer, there were two poor kids applying for every single job that was available, that is public sector and private sector, money and they match it dollar for dollar with private money. And for many of these young people there are simply no other alternatives. They are at a time in their life when they are hitting a fork in the road. Due to this program, many will go down the road toward jobs, employment, and responsibility, recieving for the first time a paycheck and an opportunity to really hold a job and to see the world of work, come to work on time, and be responsible.

The other alternative for many of them is unfortunately to get into mischief.

The unemployment rate among out of school, particularly out of school minorities is five times greater than the unemployment rate for young people generally who are seeking work. This is a tremendous problem in this country, and these kids want to play it right. I just want to urge you, please, to restore as much of this money as possible.

I am also concerned about $310 million in youth training grants that are also being cut for 1995. This is the same issue. We have evaluations, and I am happy to share them with you, which indicate that youth programs work.

Unfortunately, the total decreases in youth programs that have been proposed by the House of Representatives result in 1.4 million participants in youth programs not having a chance. And again, this simply does not make logical sense to me. I urge this subcommittee to be steadfast in its support for efforts to improve the productivity and protect the rights of all American workers.

I am concerned also about a proposed rescission for the Wage and Hour Division of our Department. We have undocumented immigrants who are coming in and working in sweatshops. One of the main ways of rooting out undocumented immigrants is through making sure that no employer can profit by bringing in workers who are willing to work at subminimal wages in subminimal working conditions and are too afraid to complain about it because they are illegal, undocumented, immigrants. We have got to enforce the law. We cannot do our job if we are going to have these kinds of rescissions.

Finally I want to say that the administration opposes a provision in the rescission in the House of Representatives that prohibits the executive branch from using fiscal year 1995 funds to issue, implement, administer, or enforce any executive order that prohibits Federal contracts with companies that hire permanent replacements for striking employees. This provision would impinge upon the executive branch's ability to ensure a stable supply of quality goods and services for Government programs.

Turning to the 1996 budget, the amount requested to be appropriated by this committee, Mr. Chairman, as you said, is $13.3 billion. A total of 17,936 full-time equivalent staff is requested. These funds are necessary for four kinds of missions, and let me just outline them very briefly.

First, we must address the fact that the American labor force is changing dramatically. Military bases are closing. Companies are downsizing. People need to get skills. In fact, there was a study done just a couple of weeks ago by the University of Pennsylvania which went to 3,000 worksites and found that 60 percent of managers need workers with higher skills. There are jobs out there.

Some 2 years ago when I was talking about up-skilling, creating an improved skill pool for American employers and America overall, a lot of people said, well, training for what? The fact of the matter is there are skilled jobs out there.

You do not have to have a college degree, but unless we provide people the opportunities, they are not going to be able to go from the old economy to the new. The old factory jobs are disappearing. You have got to have the skills for technician jobs. In the plants and the factories, it is numerically controlled machine tool operators. You have got to understand statistical process control.

In the service sector you can get good jobs if you know desktop publishing. You can get good jobs if you know automotive electronics.

I was in Philadelphia recently and I sat down with a group of employers who said: We cannot find enough people to be physical therapists and occupational therapists in Philadelphia. Now, you do not have to have a college degree for that, but you have got to have some training. There are good jobs out there, and people who are facing poverty could get them if they had skills.

So what I am saying to you is we need to do more than we are even requesting. I mean, ideally our requests for adult disadvantaged people touch about 5 to 10 percent of the number of people who actually need, by our estimates, need training. If we are talking about dislocated workers, we are touching maybe 20 percent.

The President would like to streamline and consolidate Federal job training programs. There will be some savings there, but nowhere near adequate to make up for this huge gap that exists, so that Americans can get the skills and the jobs they need.

I am saying that we are not doing the job for Americans. They cannot do it on their own. We want people to work. The work ethic is central to the society. We are not asking anybody to simply sit on their hands and take handouts. We want people to have the opportunity to prosper in this economy.

Also, we are seeking additional resources, as I said——

Senator **Specter**. Mr. Secretary, may we interrupt you. We have 4 minutes left on a vote. We have back to back votes, so we will return in just a few minutes and resume the hearing. So we will stand in recess for just a few moments.

[A brief recess was taken.]

Senator **Specter**. We will reconvene the hearing.

Pardon the delay, Mr. Secretary. You may resume.

Secretary **Reich**. Mr. Chairman, I was just winding up. Let me just make two final points.

One has to do with the Occupational Safety and Health Administration. We are seeking a small increase in order to better protect the health and safety of American workers. Our information demonstrates that in the 3 years following an OSHA inspection and fine, injuries at inspected worksites decreased by as much as 22 percent. We need more resources based upon the compliance initiatives that we are developing that help small and medium-sized businesses comply with the law without penalties and inspections. In this way, we will provide greater efforts to avoid workplace injuries and illnesses before they occur, and actually help drive down worker compensation costs.

This is good for workers. It is good for employers.

I am also equally concerned about proposed rescissions in OSHA to the tune of approximately $16 million. That means a 5-percent cut in OSHA's enforcement and compliance activities, resulting in an estimated 5,000 additional workers suffering injuries that otherwise could have been avoided.

Let me just very briefly summarize, Mr. Chairman and members of the committee. I have been talking mostly about the rescissions because they are fairly substantial. They cut back on training and development of the workers most vulnerable in our society. By taking away summer jobs for 1.2 million American kids who are in disadvantaged areas. We take a major step backward from the goal of ensuring that all Americans have a chance to work and get a good job.

PREPARED STATEMENT

The 1996 goals with regard to our budget I think are responsible, are modest, and take us in the right direction in terms of protecting American workers, and also ensuring that in this changing dynamic economy, that all Americans who need them have the skills to succeed. And that is what we are all about.

Mr. Chairman, I thank you very much.

[The statement follows:]

Prepared Statement of Robert B. Reich

Mr. Chairman and Distinguished Members of the Subcommittee: I am pleased to have the opportunity to discuss with you the Labor Departments budget proposals for fiscal year 1996. But before I do so, I would like to express my deep concern about the recently passed House Rescission Bill, which cut $2.3 billion in funding from the Department's activities in the current fiscal year.

As I have made clear in testimony before the Congress, as well as in private conversations with many of you, I share in the consensus that we must scrutinize the federal budget—issue by issue, program by program, dollar by dollar—to determine which purposes merit the expenditure of taxpayer's resources. If a program is not doing the job, and at a reasonable price, that program should either be reformed or retired. Investing scarce resources in programs that don't deliver cheats workers who require results and taxpayers who end up financing failure.

We in government, both in the Administration and in Congress, are derelict in our duty if we allow public resources to be badly managed, or devoted to wasteful purposes. But we are also derelict in our duty if we ignore urgent needs whose solutions are within our grasp.

Thus I am deeply concerned about the proposed rescission of $2.1 billion from our efforts to improve the prospects of disadvantaged youth. This amounts to a reduction in funding for youth programs of nearly sixty percent. There is no economic rationale, and there is certainly no moral rationale, for denying the opportunity for a summer job to 1.2 million young Americans in 1995 and 1996. Yet this would be precisely the effect of the legislation that has now passed the House. This summer jobs program has a thirty-year history of bipartisan support. Over those three decades, it has given millions of low-income youth their first vital lesson in the work ethic. The evidence shows it has been a worthwhile investment which we would be reckless to renounce.

Similarly, I am concerned about the proposed reduction of $310 million in youth training grants. This program provides training and related education and employment services designed to provide young individuals with marketable skills leading to productive employment. In the past, this program has had a mixed record, with some approaches yielding excellent returns and others showing disappointing results. In response to this evidence, we have redoubled our efforts to transfer lessons from the most successful models to improve the performance of the program overall. And we have reduced our budget requests, to avoid asking the American people to put up more resources than we are able to spend wisely. But the rescission the House Appropriations Committee calls for would short-circuit this process of reform and improvement.

Total decreases proposed in youth programs, including the elimination of four new Job Corps centers, will result in a reduction of approximately 1.4 million participants in youth programs. Meanwhile, the unemployment rate for black teenagers is nearly five times as high as the overall unemployment rate. Make no mistake: Preparing disadvantaged youth for the world of work is a difficult task, and not every approach has worked. But our response has been, and must be, to relentlessly reform, assess, and experiment in order to get rid of failed approaches and replicate successes. We cannot in good conscience simply abandon the effort.

The combined reduction of $132.3 million in employment and training programs for adults and dislocated workers is also painful. These programs were designed to provide these groups with marketable skills leading to productive unsubsidized employment. The reduction of $33 million in adult training grants will decrease the number of the disadvantaged adult population served by 11,400. This program is currently funded to serve only a very small percentage of the disadvantaged adult population. The reduction of $99.3 million will mean that about 52,000 fewer dislocated workers will be helped in 1995. This program currently serves approximately 27 percent of the eligible population of 2.5 million dislocated workers. This reduction comes at the same time when demand for services in this program is likely to increase due to the recently announced military base closings that will cut 34,200 civilian jobs nation-wide, and the impact of Clean Air Act implementation and trade policies.

Also, proposed reductions in the Occupational Safety and Health Administration ($16 million) and Wage and Hour ($2.5 million) will affect compliance assistance activities that ensure worker protection in the areas of safety and health and labor standards.

The proposed rescission of fiscal year 1995 funds will hinder OSHA's progress on the very initiatives that many in Congress want the Department to undertake: more training, better targeting of the most serious hazards, and more assistance for small businesses. In particular, the proposed rescission will: (1) reduce funding for OSHA's state partners conducting safety and health programs and consultations to small businesses; (2) limit efforts to improve compliance and outreach efforts through new technology; (3) undermine our commitment to target the most dangerous hazards and worksites, and thus avoid inspecting safe workplaces; and reduce targeted training grants for non-profit organizations.

In Wage and Hour, the impact of the proposed rescission is magnified because the cuts exceed previously approved program increases. For example, the proposed rescission will reduce staffing and travel which will severely limit educational outreach to employers and employees, and thus have a negative impact on voluntary compliance efforts. Work on the Electronic Data Interchange, which is designed to facilitate the issuance of wage determinations—in minutes instead of months—will cease because of the proposed reduction. Training and equipment needs for employees intended to increase productivity and enhance compliance assistance activities under a streamlined organizational structure will be curtailed, if not eliminated.

Again, I agree that we must reduce the size of government and the Department of Labor is doing its part. However, we must not reduce the deficit by eliminating programs for youth of America. Rather, we should continue to invest in these programs and the futures of our nation's youth or our costs as a society will be greater down the road. I urge this Subcommittee—when the opportunity is available—to be steadfast and resolved to maintain the support for the programs that invest in our nation's workers and particularly our youth.

Let me now turn to the Department of Labor's fiscal year 1996 budget proposals and major themes in the budget and how they support the President's "New Covenant" between the American people and their government. This new covenant represents a new set of understandings for how this Administration can equip the American people to meet the challenges of a new economy, and how we can change the way government works to fit a different time.

The Department's fiscal year 1996 budget proposals reflect the President's proposal for a Middle Class Bill of Rights. The Department's role is to lead the investment in our workforce in order to raise income levels through education and training and to sustain the economic recovery, while continuing to reinvent government by making it leaner, more responsive and more effective.

Nearly a year ago before this Committee, I emphasized the need for continued investment in America's workforce. America is now leading a global economic recovery that has pulled the world out of a stubborn recession. The annual budget deficit will shrink for the third consecutive year for the first time since Harry Truman was President. We have entered into two historic trade agreements—NAFTA and GATT—so American companies can sell their goods and services in markets across the globe. Since January 1993, America has created 5.7 million new jobs—93 percent of them in the private sector—and enjoyed the largest one-year increase in manufacturing jobs since 1987. In recent years, most of the net employment gain has been in high-wage professional, managerial and technical occupations. The President has reduced the deficit from $290 billion in 1992 down to $203 billion in 1994, to a projected $193 billion this year. We expect that by 1999, the deficit will fall to its lowest level as a percentage of GDP since 1979. At the same time, great progress has been made in reinventing government through the National Performance Review. This Administration has reduced the workforce by 102,000 positions while streamlining departments and agencies, cutting red tape, and providing better service. Today, America is now better equipped to prosper in the fast-paced, information-based global world economy than it has been for a generation.

Yet, as the economy moves ahead, too many of our workers and young people are being left behind, and the living standards of many of our families have remained flat or fallen. Americans with education and job skills have earned higher wages at more rewarding work and have prospered with the expansion of the economy. The problem is that it is not enough to create more jobs. Americans need higher incomes if we are to rebuild our middle class. The solution is to equip all Americans with the tools to take control of their economic futures. Skills and education are the gateways to the new middle class. Our challenge is to ensure that all Americans can get the skills that will let them earn middle-class living standards for themselves and their families.

To illustrate my point that skills and training matter. There was a article in the Washington Post recently that quoted automobile industry executives and dealers saying that they were having a difficult time finding people who are qualified to operate the high-tech equipment used to diagnose a variety of problems on cars and trucks. General Motors Chairman John F. Smith Jr., indicated that the problem results from the education system in this country and not turning out people for the jobs of the future. Dealerships nationwide are in such a bind for qualified technicians, that they are stealing technicians from one another as much as they are training new workers. Chairman Smith indicated that the auto industry is going to have to work more closely with high schools, colleges and other training programs to eliminate a shortage of trained auto technicians.

Historically, government has helped Americans adapt to change, but we can not continue to approach problems the way we have done in the past. We can look to past successes for inspiration—but not for imitation. In this new economy—a knowledge economy—skills matter more. Skills are what allow people to navigate change successfully. Indeed, each year of education and training beyond high school increases average future income by six to twelve percent. More than ever in America, what you earn depends on what you learn.

However, some suggest that job training should not be a Federal responsibility at all. Instead, the separate states should simply be allowed to invest in worker

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skills—or not—as they see fit. Of course the states must have a major role in workforce development. The Administration's proposals recognize, preserve, and in many cases enhance that role. But there are some significant drawbacks to leaving job training entirely up to the states. First, America has a highly mobile workforce. Many people live and work in several states over the course of their careers. In 1993, for example, about two and a half percent of the adult population moved from one state to another. States who invest solely with their own resources in workforce skills would inevitably lose some of their investment to other states, which dilutes the incentive for them to devote scarce resources to job training. This problem is exacerbated by the fact that more-skilled people are particularly mobile—college graduates are about twice as likely as high-school dropouts to move interstate. Similarly, while it is true that states may invest in worker skills in order to lure businesses to locate within their borders, this may well fail to motivate an inclusive approach to worker training. Those who can quickly learn the skills sought by mobile industry would gain a disproportionate share of the training resources, if we rely on intrastate competition as the main spur to workforce development. And there is an empirical reason to doubt the wisdom of leaving it all up to the states: Today, nearly all of the resources spent on job training come from the federal budget—even though states administer the bulk of the training. Current resources fall far short of meeting the nation's needs for workforce development. And states are free to add their own resources. Yet few choose to do so, to any significant degree.

The Middle Class Bill of Rights will provide today's aspiring workers and job seekers with the opportunity for education and training. It offers every American a fair chance to learn the skills needed to build a better future and a strong American economy. It provides education and job training tax deductions to help working Americans pay for building new skills that lead directly to better jobs and wages. In addition, tax credits for families will encourage savings, and the proposed GI Bill for America's Workers will help unemployed workers and low-income adults and youth, who will not be able to benefit from the tax incentives, to get the needed assistance to find new and better jobs by learning the necessary skills.

While the Administration struggled to reduce the deficit during its first two years, it nonetheless laid a foundation for its Lifelong Learning Agenda, a campaign of building skills for a better future. With strong bipartisan support, the President and the 103rd Congress enacted: (1) Goals 2000: Educate America Act which provides new incentives for better schools; (2) The School-to-Work Opportunities Act is triggering nationwide innovations in youth apprenticeships; (3) An expanded Head Start means more kids begin with a better chance to learn; (4) Streamlined access to student loans gives all Americans a simple, affordable way to finance learning; and (5) Transforming the unemployment system into a re-employment system, centered on One-Stop Career Centers has already begun. These new laws are already helping Americans improve and expand their opportunities.

The next step to complete the agenda is to replace the unorganized set of post-secondary education and training and job search assistance activities into an efficient system that helps working Americans get the skills and information they need to get good jobs and earn higher incomes. The challenge this Administration and this Congress faces is how to empower Americans with the opportunity to learn new skills and promote income growth, while at the same time reduce the size and scope of government to accelerate deficit reduction.

The proposed budget for the Department of Labor in fiscal year 1996 is $38.7 billion in budget authority and $35.9 billion in outlays the bulk of which ($25 billion) is for unemployment insurance paid directly from state trust funds. The amount requested to be appropriated by this Committee is $13.3 billion. A total of 17,936 full-time equivalent (FTE) staff is requested for accounts which provide for employment and training, worker protection, labor, pensions and employment standards and statistics programs.

The Department's budget proposals are grouped around four major themes: (1) G.I. Bill for America's Workers; (2) Compliance Assistance with increased emphasis on facilitating an understanding of laws and regulations to foster voluntary compliance; (3) Immigration enforcement to curb illegal migration by enforcing worker protection laws in those industries that historically have subjected workers to sub-minimum wages and dangerous working conditions to eliminate the incentive for employers to hire illegals; and (4) Reinvention and Streamlining of the Department's operations to transform the way government operates.

GI BILL FOR AMERICA'S WORKERS

The fiscal year 1996 budget will propose $14.2 billion for the GI Bill for America's Workers, an increase of $1.0 billion over comparable appropriations in 1995. The GI

Bill includes $7.8 billion for the Department of Labor and $6.4 billion proposed for the Department of Education. This proposal seeks to simplify the current patchwork of Federal programs, which have grown over the past several decades. Each program was designed to respond to a specific concern at a specific time but never brought into alignment with other programs. The results are conflicting rules and administrative structures that confuse people they are intended to help and waste taxpayer money. The proposed new system focuses on workers, job seekers, labor market information, state and local flexibility, private sector partnerships and accountability at all levels. This proposal consolidates about 70 employment and training programs. The Department's $7.8 billion request includes $6.3 billion for adults and $1.5 billion for youth.

For adults, Skill Grants of up to $2,620 per year for training would be provided to dislocated and low income workers up to a total of $3.6 billion. An additional $1.5 billion is proposed for labor market assistance and support for dislocated and disadvantaged participants. Services will be provided through One-Stop Career Centers for which $200 million is requested in fiscal year 1996 for additional seed money for State development initiatives. One-Stop Career Centers will offer Americans easy access to reliable, up-to-date information on where the jobs are, what skills are in demand, and the performance records of training institutions. The $872 million proposed for the Employment Service in fiscal year 1996 will support the One-Stop initiative.

For youth, $1.3 billion is proposed in fiscal year 1996 for the consolidation of JTPA year-round, summer, and other youth funds. The proposed funding would help States and localities integrate work-based learning with school-based learning for high-risk youth. Employers would play a central role in preparing youth for the job market, and linkages between training and work would be tightly forged through the "second-chance" system. The Second Chance grant would empower local institutions to manage resources to assist youth likely to have the most difficulties in making a successful transition into stable employment and a career path. The program would serve primarily low income school dropouts, although summer-jobs would still be available to in-school disadvantaged youth. Further, $30 million is requested for Youth Innovation grants to test new youth models. An additional $200 million is requested for School-to-Work, with a like amount for the Department of Education to build systems integrating academic and vocational education, linking secondary schools, post-secondary education, and the private sector. Disadvantaged youth are in more desperate need of practical, effective opportunities than ever. In the late 1970's, half of recent high school dropouts held jobs; by 1992, only a little over a third did. Real earnings of young high school dropouts have declined by almost 25 percent over the same period. That is why we believe it is critical to shift this strategic investment in the future of our youth into a learning framework that offers the prospect of solid returns in the form of jobs and higher earnings.

For the Job Corps, $1.2 billion is requested in fiscal year 1996, which includes $1.0 billion for operations, $101 million for repair and relocation costs, and $97 million to continue the implementation of the Job Corps expansion with four additional new sites proposed in 1996.

COMPLIANCE ASSISTANCE

The Department has recognized for sometime that it needs to do a better job of communicating with our customers—employers, workers, and unions—about the broad array of labor laws, regulations, judicial decisions, administrative determinations, and agency interpretations of the laws that they face. The Department's fiscal year 1996 compliance assistance initiative is designed to provide easily accessible information about the laws under the jurisdiction of the Department so that employers and workers governed by those laws can voluntarily bring themselves into compliance.

In fiscal year 1996, we are requesting $36 million for the compliance assistance initiative. These funds will be used for enhancements in information technology, training and education, consultation, technical assistance and other special initiatives designed to aid voluntary compliance. I would like to take a moment and give you a few concrete examples of what we plan to do in the compliance assistance area.

In OSHA, we are implementing program strategies to assist employers and employees in complying with OSHA standards and preventing hazards and to enable them to create safe and healthy workplaces. We will review existing rules and revise or eliminate obsolete and confusing standards with input from agency stakeholders. Our compliance strategies will recognize employer efforts to develop and implement on-site safety and health programs. In addition, our focus will be on establishing and strengthening partnerships with trade associations and professional organizations, including employer groups, labor unions, insurers, and other government agencies to facilitate outreach activities, training, education to leverage compliance assistance activities. We will create incentives for employers to improve workplace safety and health with the help of employees, and expand the "Quick Fix" program that has been successful in New Jersey by reducing penalties for violations abated immediately.

In MSHA, we will focus on a variety of activities to garner the support and involvement of the mining community. We will continue to conduct seminars across the nation to advise miners, operators and contractors on how to prevent accidents particularly at small mines. We will also focus on on-site problem resolution by utilizing MSHA engineers to help operators solve difficult compliance problems through sophisticated survey and computer analysis techniques.

In the Wage Hour Division and the Office of Federal Contract Compliance Programs (OFCCP), we will enhance voluntary compliance by providing more effective technical assistance, education and outreach programs to employers and employees, especially in areas where noncompliance is most prevalent. Our efforts will include making improvements in electronic information systems in both programs that will provide front-line employees with automated tools on-site. These automated tools will provide access to regulations, opinion letters, Federal statutes, educational materials, and allow for information sharing and improve responsiveness to requests from the public, such as providing wage determinations.

In the Pension area, we will conduct education and outreach efforts with the assistance of the employee benefits community to encourage adequate rates of retirement savings among plan participants, and to increase compliance with ERISA among plan practitioners to protect employees' benefits. Utilizing advances in information technology, PWBA will also work to create a more informed plan participant and practitioner community by facilitating access to interpretive guidance, on-line access to plan related data, regulations, opinion letters, exemptions and prohibited transactions.

I will also direct a comprehensive policy review and evaluation of all existing regulations to assess their impact on both employers and employees, and take the necessary actions to improve the regulatory procedures.

IMMIGRATION ENFORCEMENT

As part of the Administration's initiative to reform the Nation's immigration system, the Department is requesting $10.6 million and 202 FTE for enforcement activities in areas and industries where employment of unauthorized workers (illegal immigrants) is most prevalent. The Immigration Reform and Control Act (IRCA) of 1986 targeted employment as the single most important and pervasive incentive for illegal migration and made employers responsible for the decision to knowingly hire unauthorized workers. IRCA attempted to reduce the incentive of job opportunities for potential illegal immigrants and improve conditions for all workers who compete in the job market with unauthorized workers. The Administration is committed to strong enforcement of employer sanctions and worksite standards to reduce the workplace magnet for illegal immigration.

The Department makes a singularly important contribution to reducing incentives for illegal immigration. Curbing illegal migration and enforcing worker protection laws have a direct and too seldom noted policy connection. Illegal immigrants are frequently subjected to sub-minimum wages, dangerous workplaces, long hours, and other poor working conditions because they are desperate for work and in a weak position to insist on their rights as workers. Knowingly hiring illegal immigrants both reveals, and rewards, an employer's willingness to break the law, and undermines wages and working conditions for authorized workers.

Our strategy will focus attention and target enforcement resources on repeat violators and the most serious violations, protect the most vulnerable workers, and produce results more swiftly and efficiently. The Wage and Hour Administration will increase the proportion of its compliance activities that are targeted to low-wage industries—such as agriculture, garment manufacturing, janitorial services, restaurants, the hotel/motel industry—and bring a wider variety of enforcement tools to bear to promote higher levels of compliance and deter violations. To a large extent, these efforts focus precisely where many immigrant workers concentrate in the workforce.

REINVENTION/STREAMLINING

Reinvention efforts in the Federal government have focused on four major objectives—improving customer service, empowering employees, cutting red tape, and

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getting back to basics. The Department's fiscal year 1996 budget request includes $20.9 million for one-time costs related to streamlining plans for the Department. These funds will be used to capitalize an Investment in Reinvention Fund; to realign inefficient in organizational and office structures; to invest in automated technologies which will enhance employee productivity and do away with outdated manual systems; and to empower DOL staff with the knowledge needed to operate effectively in a streamlined organization.

With respect to our ongoing reinvention efforts, the focus has been targeted at getting back to basics—focusing on what works while simultaneously eliminating unnecessary burdens on our customers and our staff. An excellent example of this effort is the Occupational Safety and Health Administration's Maine 200 Program. Under this program, the 200 most dangerous workplaces in Maine were identified based on worker compensation claims and each employer was asked to cooperate with OSHA to improve their workplace safety and health programs. This program has enabled OSHA to target a large number of worksites with a history of workplace injuries and to work with most of the affected employers to control workplace hazards without conducting inspections.

All of our programs have developed customer service standards and many have directly surveyed their primary customers, analyzed the responses, and are actively addressing areas of concern. One example of the commitment to respond to customer needs is a significant reduction in the number of days it takes BLS to deliver the Consumer Price Index (CPI) summary news release and detailed report. Another noteworthy example involves an Employment and Training Administration team which worked proactively with management and union officials at Boeing to address the layoff of 19,000 workers. Working together, management, labor and ETA developed the Boeing Re-employment Project, which included two One-stop centers serving thousands of dislocated Boeing workers.

Employee empowerment has been the cornerstone of our reinvention efforts. Front-line employees have identified ways to re-engineer current work processes and eliminate unnecessary steps. For example, the Pension and Welfare Benefits Administration reduced the number of summary case file reports filed from 4,800 to only 800, an impressive 83 percent reduction. Freeing staff from routine paperwork allows investigators to spend more time conducting investigations and providing customers with technical assistance.

A frequent complaint, both inside and outside of government, is of excessive red tape. The Department's various reinvention teams charged with cutting red tape have trimmed back unnecessary internal rules and regulations, reduced paperwork, and simplified reporting requirements. The Office of Workers' Compensation Programs simplified the cumbersome administrative process in which claimants once had to fill out a form reviewed by as many as nine people in 68 separate steps. Under the re-engineered procedure, all but 18 of the steps have been eliminated and only two people will need to handle each form.

The Department has also made considerable progress toward implementing the National Performance Review targets of reducing the overall number of employees and redirecting resources from overhead to front-line, customer service positions. At the current staffing level, the Department is ahead of schedule to achieve the 12 percent reduction target, and are committed to maintaining this pace through fiscal year 1996. While the Department has achieved its portion of the streamlining reductions, additional resources have been requested for new initiatives such as the President's immigration enforcement initiative.

We are encouraged by our success in the first phase of the National Performance Review (NPR), and we have now embarked on NPR's second phase. In the first phase of reinvention DOL cut back to basics. But there is more to be done. We will renew our effort at eliminating unnecessary operations. The Department's programs that can be done better by communities and individual citizens themselves will also be identified. The best example of this is the proposal to turn over decisions on job training to the customers themselves by providing Skill Grants through the GI Bill for America's Workers.

Mr. Chairman, we at the Department believe that our budget proposals support the President's New Covenant with the America's people, and give full weight to the imperative of economical, responsible government. Our proposals for the GI Bill for America's Workers and the other priorities contained in our fiscal year 1996 budget will enable the Department to continue to prepare the American workforce for the 21st Century and strengthen our position in the world economy.

This concludes my prepared statement Mr. Chairman. I would certainly be happy to answer any questions that you or other members of the Subcommittee may have.

BIOGRAPHICAL SKETCH OF ROBERT B. REICH

Robert B. Reich is the nation's 22nd Secretary of Labor. Appointed by President Clinton to "bring forth a revolution in lifetime training and education of our workforce," Reich has dedicated himself to reinvigorating and reinventing the Department of Labor.

Under his leadership, the Labor Department has moved forward on several pathbreaking initiatives to build the skills of American workers. The School-to-Work Opportunities Act, which the President signed into law in May, will ease the transition from secondary education to the world of work for the 75 percent of America's youth who do not graduate from college. And earlier this year, Secretary Reich and the President introduced the Reemployment Act, which will begin to transform America's unemployment system into a reemployment system that launches workers into new jobs.

Reich is also committed to creating better jobs. The Labor Department has renewed its commitment to enforcing labor laws—and in the 15 months Reich has been in office, the Department has collected more than $40 million in back pay and other damages for victims of discrimination. The Department has also cracked down on sweatshops, on unsafe worksites, and on fraudulent purveyors of health insurance. Under his guidance, legislation has been introduced to reform the pension system and ensure full funding of pension plans. And the Family and Medical Leave Act has been passed and implemented. In addition, Reich has created the Office of the American Workplace to encourage greater collaboration between workers and managers, and to promote worker involvement in decisionmaking and on-the-job training.

Before coming to the Labor Department, Reich was on the faculty of Harvard University's John F. Kennedy School of Government. He served as an assistant to the Solicitor General in the Ford Administration, and headed the policy planning staff of the Federal Trade Commission in the Carter Administration. He has written seven books and more than 200 articles on the global economy and the U.S. workforce.

Reich graduated from Dartmouth College and Yale Law School, and received a degree from Oxford University, where he studied as a Rhodes Scholar. He lives in Washington, DC with his wife, Clare Dalton, and their two sons, Adam and Sam.

STUDENTS

Senator SPECTER. Thank you, Mr. Chairman.

En route back I met a group from Kalamazoo and Portage, students from the high school, and the instructor with them asked what was going on. I said: Something very important, that the Secretary of Labor was testifying here.

Would you have the students stand up so we can identify them.

Senator HARKIN. Where are they from?

Senator SPECTER. From Kalamazoo and Portage, MI.

Would you identify yourself, the gentleman who talked to me on the subway?

Mr. RUTZIN. Marshall Rutzin, Portage Northern High School.

Senator SPECTER. You are welcome here. We may call you as witnesses on the subject of youth training.

You may all sit down now. Thank you.

Mr. Secretary, I begin with a question on your statement that a 5-percent cut will result in 5,000 workers suffering injuries. There is some thinking that I subscribe to myself from time to time, that you could take the 5-percent cut and imaginatively find a way to do just as good a job.

Let me ask you a two-part question: What do you think about that as a generalization? And No. 2, how can you specify that there would be 5,000 more workers suffering more injury from that 5 percent cut on OSHA?

Secretary REICH. No. 1, Senator, Mr. Chairman, the challenges facing the Occupational Safety and Health Administration are increasing for two reasons: because the number of workers out there is increasing. That is good. We want to have more workers out there, but——

Senator SPECTER. I have got 5 minutes, Mr. Secretary. How do you come to a conclusion that you are going to have 5,000 more injuries?

Secretary REICH. This is based upon analysis of the injury and illness records we have on the effects of OSHA inspections and compliance activities on reducing injuries and illnesses in the workplace.

Senator SPECTER. Would you supply us the details of that for the record?

Secretary REICH. Yes; I would be happy to.

Senator SPECTER. Because I would like to take a close look at that.

[The information follows:]

IMPACT OF THE 5-PERCENT REDUCTION TO OSHA'S BUDGET

Data from a recent study demonstrates that in the 3 years following an OSHA inspection and fine, injuries at inspected worksites decrease by as much as 22 percent. Calculations based on this study indicate that a 50-percent cut in OSHA's budget, leading to a comparable reduction in Federal and State OSHA inspections, would result in an estimated 50,000 injuries that could have been prevented by OSHA inspections. Using this model to determine the impact of a 5-percent reduction to OSHA's budget translates into an estimated 5,000 more workers suffering injuries that otherwise could have been avoided.

RESCISSIONS

Senator SPECTER. We are obviously in an extraordinarily difficult budgetary situation. It is occasioned by the economics of deficits and national debt, and it is certainly front and center on the political scene, which we all acknowledge. And we have a staggering rescission package.

This subcommittee is being asked to take rescissions of some $5.9 billion if the House enacts what is on the table at the moment. I have said repeatedly that my view is to look at it with a scalpel and not a meat axe as to how we are going to handle it.

But I think it is plain that there are going to have to be some economies. And I called you shortly after the election and said to you: "Please take a hard look, let us work cooperatively to see if we cannot cut with the least possible problem." And I think we are going to have to do that in a very tough and resolution manner.

Let me turn to the specifics on the 1.2 million jobs and followup on the telephone conversation which you and I had just yesterday. What is the strongest evidence you have that that summer job program is effective in terms of training people for permanent jobs, in terms of lowering the crime rate, or whatever other specific evidence you have as to the value of that particular appropriation?

SUMMER JOB PROGRAM

Secretary REICH. Mr. Chairman, we have three pieces of evidence: one from the inspector general, one from the GAO, one from Westat, which is a consulting firm that we hired to do an independent evaluation of those summer job programs.

And just very briefly and I will submit for the record the details, but we heard from all of those studies that those were meaningful work experiences for employers and enrollees.

Also, we have combined the work experience with some educational experience, making sure that young people in these programs do not by September unlearn a lot of what they learned by June. And those learning experiences combined with work experiences, according to those three sources, have been very useful and very helpful.

I am not suggesting that a summer job is going to miraculously deliver a young person into the world of work forever or set that young person straight. It is one small step in the right direction, and the alternative for many of these young people is simply sitting around in the summer. They are not in areas where there are a lot of jobs.

The private sector tries to match, in some cities, dollar for dollar what the public sector comes up with. They did not do it last summer. And I want to stress that last summer there were two disadvantaged young people who were willing and eager to work for every one job position that was available to them. We cannot let these kids down. I think it is irresponsible and it is ultimately damaging to them and to the economy and to society.

Senator SPECTER. Well, Mr. Secretary, my yellow light is on, and I appreciate the difficulty and perhaps it is impossible to quantify any further than you have. But to say that it is meaningful and they got what they had hoped for, really is not going to be sufficient to carry the day.

We are going to have to find something which is a good deal more tangible and concrete. What I am looking toward is the conference that we are going to be in beyond what the Senate does as to how we are going to be able to establish a priority on a summer jobs program. I happen to believe in it and have seen its good work when I was district attorney in Philadelphia.

But we are going to have to find a way to quantify more. Pennsylvania is going to be very hard-hit. I have got the figures. No reason to put them in the record. The whole country is going to be hit very hard. Each Senator could go to his own State.

But I would like you to provide for the record something harder by way of evidence, if you can, which will enable us to make the case for these programs. And I think we are also going to have to give some thought to appealing to the private sector, and I have already initiated some discussions in Pennsylvania's cities to tell them what is on the horizon.

A lot of the community want budget cuts, less government, less spending, lower taxes, and the comment is made: Let the private sector pick it up. And we may be looking right now at an effort to have the private sector pick up these jobs. We have a lot of jobs on the line here.

Secretary REICH. Well, Mr. Chairman, as I was responding to your question one of my assistants gave me details with regard to evaluations. I will not bother you right now, but we will put them into the record, and make it much more concrete than I could give you off the top of my head.

Senator SPECTER. Why do you not hand them up to me and I will read them while the important questioning of Senator Harkin goes forward.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman. Thank you again, Mr. Chairman.

Again, Mr. Secretary, let me thank you and compliment you on your leadership of the Department of Labor, especially in the whole area of upgrading our workforce, something that we had not done in the past. You have really moved us light-years ahead in just focusing on that problem, understanding it, and trying to put some power behind that; just as you have in your support for the summer youth job programs.

In your written statement you pointed out that the cuts that are proposed, the rescission, is a 60-percent cut in the summer youth training programs. I do not know too many other meaningful and worthwhile programs that are being asked to take that kind of a cut, a 60-percent cut. As you said, there is no economic nor no moral rationale for it.

Secretary REICH. Actually, Senator, if I may, the rescissions eliminate entirely the summer jobs program for 1995–96, 100 percent. This is not a matter of a 60-percent cut. It is 60-percent in youth programs overall.

Senator HARKIN. Oh, I see.

Secretary REICH. The summer jobs program has been eliminated, with barely a hearing on it. I did not testify before an authorization committee over there and it was never brought up in my appropriations subcommittee hearing. But it is complete elimination.

STRIKER REPLACEMENT

Senator HARKIN. Mr. Secretary, let me turn to another subject a little bit closer to my home, if I might. As you know, the longest running strike in the country, 8 months, is affecting some 1,000 Bridgestone Firestone workers in my State of Iowa. You have been active in helping us try to bring some justice to this situation and Iowans are very appreciative of all that you have done.

But Bridgestone right now has permanently replaced hundreds of workers for doing nothing more than legally trying to get a fair shake from this company. Now, I have been indulgent, I guess, for some time. We kept thinking that the company was going to start doing things. Both Senator Simon and I spoke on the floor on this a couple of times. Through Senator Simon's office, Bridgestone decided to sit back down with the employees again.

I said at the time that I hoped that this was not just a show; I hoped they really meant to get to something. But I am afraid that, after about 1½ months, again this was just another ruse on the part of the Bridgestone Corp.

Bridgestone's behavior I believe has been reprehensible, reprehensible—perhaps one of the worst examples of irresponsible corporate behavior I have ever seen. It clearly shows the need for the executive order now under consideration that would stop Federal contracts from going to companies that permanently replace legally striking workers.

Mr. Secretary, could you elaborate on how this Executive order would be implemented? What is the timing of it? How many Federal contractors might be covered by this? Could you just elaborate on it a little bit, basically the timing and how we are going to implement this?

Secretary REICH. Yes, Senator. Within a few days the President will issue an Executive order giving the Secretary of Labor authority to make a finding that a given company has permanently replaced its striking workers and on the basis of that finding notify other Federal Departments and agencies that they must essentially cease doing business with that Federal contractor.

The Executive order will be available and I will make it, obviously, available to the committee as soon as issued. But with regard to Bridgestone, it would be inappropriate, for me to comment on the details there except to say that if there is a finding by the Secretary of Labor that Bridgestone has indeed permanently replaced its striking workers, then Bridgestone would not be entitled to renewals or new Federal contracts except under extraordinary circumstances.

Senator HARKIN. Do you know if Bridgestone would be affected? I understand that Bridgestone has literally millions of dollars in Federal contracts to supply tires to various agencies of the Federal Government, perhaps even the military. Do you have any further knowledge on that?

Secretary REICH. I do not. As soon as the Executive order is issued, I will be making those specific inquiries.

Senator HARKIN. Can you give me any more idea of when that Executive order will be issued?

Secretary REICH. I believe within the next few days, Senator.

Senator HARKIN. I think that should come as some good news to some of our workers at Bridgestone. Again, this is—for the fellow Senators who do not know anything about what has happened out there, this company just basically refused to even sit down and negotiate in good faith at all with the workers. They just brought in replacements, said they were only temporary, then they made them permanent.

Again, they wanted the workers to work hours in plants in Des Moines that their own companies in Japan would not do, take cuts in pay that their own workers in Japan would not take. As I said, probably one of the worst examples of corporate irresponsibility I have ever seen.

I am very much encouraged by what President Clinton did. I think it is an act of courage on his part to stick up for the workers of this country. I see no reason why the Federal Government ought to be involved in purchasing in any way any items from any company that would really almost flaunt the law like they are doing. I am talking about the Wagner Act and negotiating in good faith with their workers, sitting down and bargaining with them.

We may not have been able to pass the striker replacement bill, but I do not think that the people who work at Bridgestone Firestone ought to have their taxes taken by the Federal Government and then turn around and have the Federal Government buy tires from the company that basically will not even let them return to their jobs.

Secretary **REICH**. Senator, if I may——

Senator **HARKIN**. I am greatly encouraged by that and I am glad the President did that.

Secretary **REICH**. Thank you, Senator. If I may also point out a very important fact, and that is that the taxpayers should not have to rely on products that are made with the industrial equivalent of replacement workers or minor league baseball players who do not have the experience and the knowledge that workers do who are working full-time.

Evidence shows that there is a more contentious labor atmosphere, and that there are questions raised about the reliability of products and the quality of products created under these circumstances. Therefore, under the procurement authority of the President, it is perfectly appropriate, guarding the taxpayers' interests and making sure the products and services are of high quality, that he take this action.

Senator **HARKIN**. Good, and I compliment him for it and I think it was a courageous act on his part to do so.

Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Senator **SPECTER**. Thank you, Senator Harkin.

Senator Kohl.

JOB CORPS SITES

Senator **KOHL**. Thank you very much, Mr. Chairman.

Secretary Reich, I would like to ask you about Job Corps site selection. As you are aware, Milwaukee has actively sought a Job Corps site and I have discussed it with you on several occasions. As you also know, the administration has given priority to other sites because they were located near closing military facilities.

Last year this committee specified that the Department give special consideration to States with three things: No. 1, the lowest percentage of youth served; No. 2, which can demonstrate a high incidence of minority and other youth unemployment; and No. 3, can demonstrate a high level of organized community support.

As you know, Milwaukee has high scores in all three criteria. Can you tell me where the Department is in the process of selecting new Job Corps sites? Can you tell me how many sites will be funded this year and what the specific criteria will be in site selection?

Secretary **REICH**. Yes, Senator. The fiscal year 1995 appropriation included appropriations for beginning four additional Job Corps centers. Applications are due March 13, next week. And at this point I do not have any idea as to how many applications have been received, but, if it is like last year or the year before, it is very competitive.

Selection of sites is currently scheduled for July 25. Now, the Milwaukee plan last year, I remember, was very competitive, and it is not that it was not good, it was just that it was beat out by some that were even better.

But let me also take this opportunity to note for you and for other members of this panel that the House Appropriations Committee recently adopted, as part of its rescission package, an elimination of funding for these four additional centers. If this action is not overturned by the Senate, the Department will simply be unable to move forward on the selection of these four additional sites.

REINVENTION AND STREAMLINING

Senator KOHL. I have a question on your request for departmental reinvention and streamlining. You are requesting $20.9 million, Secretary Reich, as a one-time investment relating to streamlining plans. Could you be more specific about how you intend to spend that money and what it is you are going to achieve? And is there an offset to that $20.9 million?

Secretary REICH. Senator, much of that money is to be spent, and I will give you a detailed rundown, on technology, automating, making it easier and faster to accomplish productivity improvements. These are one-time cost increases so that down the line we can actually save a great deal of money.

Some $3.9 million is for the establishment of an investment in reinvention fund, and that allows agencies to come up with proposals and other investment or capital acquisition projects that produce savings later on. They can borrow the money, in effect, from the fund one time only and then return the money, in effect, when they achieve those savings.

There is $7 million for one-time costs related to eliminating inefficiencies in the structure of regional and area offices. And I want to emphasize this because we have, in our efforts to streamline and reinvent the Department, sought, as any private sector organization would, to eliminate unnecessary layers of review, and push more and more responsibility downward and out to the field and to the frontline, to consolidate and close offices which have outlived their usefulness.

Finally, $5.6 million is needed to invest in training employees to simply make them more versatile so that they can do many more jobs and they are more flexible, so we do not have to keep them where they are and hire additional people to do new tasks that come up.

So these are one-time expenditures having to do with making a more dynamic, flexible, technologically driven, and customer-driven workplace.

IMMIGRATION PROPOSAL

Senator KOHL. Thank you, Secretary Reich, I also want to ask about your immigration proposal. Your Department is proposing $16 million and 202 full-time equivalent employees to target employers that violate immigration laws and hire illegal immigrants. You were going to pay for this with a border-crossing fee, which the administration has since withdrawn.

Where are you going to get that $16 million if you do not get it from border-crossing fees?

Secretary REICH. The President included that as part of his 1996 budget request, and the deficit reductions that he is also projecting come from elsewhere in the Federal Government. As I mentioned before, the importance of increasing enforcement in this area of wage and hour and standards of work is because there is a direct relationship between the magnet that is created by sweatshops in certain States around border areas and also in major cities around the country, of employers willing to run afoul of the immigration laws because they want to get workers who they treat in illegal ways because they know that the workers will not complain.

So, if we can shut down those sweatshops, if we can cut off the magnet, as it were, we reduce the lure to undocumented aliens. We have already made some progress in this direction and we are seeking additional funds to do even more.

Senator KOHL. I think the idea is right, but you said you were going to spend $16 million on the project which would be financed largely by border-crossing fees. These fees are no longer viable. I did not catch how you intend to pay for the initiative?

Secretary REICH. Well, again, the President proposed those increases as part of his 1996 budget. They were not specifically tied or earmarked in the budget to those border-crossing fees. If it turns out that the border-crossing fees fail and they were part of the revenue stream in that budget that are counted on, then we have to make up the difference in some way. But it is part of general revenues in any event.

Senator KOHL. Thank you.

Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Kohl.

Senator Bumpers.

Senator BUMPERS. Mr. Chairman, all those youngsters who joined us, oftentimes they come here and we are always pleased to have them, but usually about this time they are bored stiff, but they do not want to be rude by leaving. So, let me say to all of you: If you want to get up and walk out, feel free to do so and we will understand.

STRIKER REPLACEMENT AUTHORITY

Mr. Secretary, by what authority would the President issue an order authorizing you to determine whether or not the strikers at Bridgestone Firestone had been permanently replaced? And second, what authority would he have to say that the Federal Government should not contract with them any more?

Secretary REICH. Senator, this is his procurement authority.

Senator BUMPERS. What if General Motors had a strike? Could he say that we will not contract with General Motors in the future because they permanently replaced strikers?

Secretary REICH. The President has the authority under the procurement laws of this country, and to my knowledge this has been used for decades, to take actions that will ensure the reliability and the adequacy of any goods and services that are being provided by the private sector to the Federal Government.

Now, in this instance, yes, the President does have the authority, unquestionably.

Senator BUMPERS. Could you supply this committee with the legal documentation for that? I am not quarreling with it, but that sounds rather draconian to me.

[The information follows:]

MEMORANDUM: OFFICE OF LEGAL COUNSEL, U.S. DEPARTMENT OF JUSTICE

MEMORANDUM FOR JANET RENO,
ATTORNEY GENERAL

March 9, 1995

From: Walter Dellinger
Assistant Attorney General

Re: Executive Order No. 12954, entitled "Ensuring the Economical and Efficient Administration and Completion of Federal Government Contracts"

On March 6, 1995, we issued a memorandum approving as to form and legality a proposed executive order entitled, "Ensuring the Economical and Efficient Administration of Federal Government Contracts." On March 8, 1995 the President signed the proposed directive, making it Executive Order No. 12954. This memorandum records the basis for our prior conclusion that the Federal Property and Administrative Services Act vests the President with authority to issue Executive Order No. 12954 in light of his finding that it will promote economy and efficiency in government procurement.

I

Executive Order No. 12954 establishes a mechanism designed to ensure economy and efficiency in government procurement involving contractors that permanently replace lawfully striking workers. After a preamble that makes and discusses various findings and ultimately concludes that Executive Order No. 12954 will promote economy and efficiency in government procurement, the order declares that "[i]t is the policy of the Executive branch in procuring goods and services that, to ensure the economical and efficient administration and completion of Federal Government contracts, contracting agencies shall not contract with employers that permanently replace lawfully striking employees." Exec. Order No. 12954, § 1. The order makes the Secretary of Labor ("Secretary") responsible for its enforcement. Id. § 6. Specifically, the Secretary is authorized to investigate and hold hearings to determine whether "an organizational unit of a federal contractor" has permanently replaced lawfully striking employees either on the Secretary's own initiative or upon receiving "complaints by employees" that allege such permanent replacement. Id. § 2.

If the Secretary determines that a contractor has permanently replaced lawfully striking employees, the Secretary is directed to exercise either or both of two options. First, the Secretary may make a finding that all contracts between the government and that contractor should be terminated for convenience. Id. § 3. The Secretary's decision whether to issue such a finding is to be exercised to advance the government's economy and efficiency interests as set forth in section 1. Id. § 1 ("All discretion under this Executive order shall be exercised consistent with this policy."). The Secretary is then to transmit the finding to the heads of all departments and agencies that have contracts with the contractor.[1] Each such agency head is to terminate any contracts that the Secretary has designated for termination, unless the agency head formally and in writing objects to the Secretary's finding. Id. § 3. An agency head's discretion to object is also limited to promoting the purpose of economy and efficiency as set forth in the policy articulated in section 1.

The Secretary's second option is debarment. If the Secretary determines that a contractor has permanently replaced lawfully striking employees, the Secretary is to place the contractor on the debarment list until the labor dispute has been resolved, unless the Secretary determines that debarment would impede economy and efficiency in procurement. The effect of this action is that no agency head may enter into a contract with a contractor on the debarment list unless the agency head finds compelling reasons for doing so. Id. § 4.

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[1] We will refer to this class of officials generically as agency head(s).

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Executive Order No. 12954, taken as a whole, sets forth a mechanism that closely ties its operative procedures -- termination and debarment -- to the pursuit of economy and efficiency. The President has made a finding that, as a general matter, economy and efficiency in procurement are advanced by contracting with employers that do not permanently replace lawfully striking employees. Additionally, the President has provided for a case-by-case determination that his finding is justified on the peculiar facts and circumstances of each specific case before any action to effectuate the President's finding is undertaken.

II

The Supreme Court has instructed that "[t]he President's power, if any, to issue [an] order must stem either from an act of Congress or from the Constitution itself." Youngstown Sheet & Tube Co. v. Sawyer, 343 U.S. 579, 585 (1952). The President's authority to issue Executive Order No. 12954 is statutory; specifically, the Federal Property and Administrative Services Act of 1949 ("FPASA"). That statute was enacted "to provide for the Government an economical and efficient system for . . . procurement and supply." 40 U.S.C. § 471. The FPASA expressly grants the President authority to effectuate this purpose,

> The President may prescribe such policies and directives, not inconsistent with the provisions of this Act, as he shall deem necessary to effectuate the provisions of said Act, which policies and directives shall govern the Administrator [of General Services] and executive agencies in carrying out their respective functions hereunder.

Id. § 486(a). An executive order issued pursuant to this authorization is valid if (a) "the President acted 'to effectuate the provisions' of the FPASA," and (b) the President's "action was 'not inconsistent with' any specific provision of the Act." American Fed'n of Gov't Employees v. Carmen, 669 F.2d 815, 820 (D.C. Cir. 1981) (quoting 40 U.S.C. § 486(a)). We are not aware of any specific provision of the FPASA that is inconsistent with Executive Order No. 12954. Therefore, we turn to the question whether the President acted to effectuate the purposes of the FPASA.

Every court to consider the question has concluded that § 486(a) grants the President a broad scope of authority. In the leading case on the subject, the United States Court of Appeals for the District of Columbia Circuit, sitting en banc, addressed the question of the scope of the President's authority under the FPASA, and § 486(a) in particular. See AFL-CIO v. Kahn, 618 F.2d 784 (D.C. Cir.) (en banc), cert. denied, 443 U.S. 915 (1979). A plausible argument that the FPASA granted the President only narrowly limited authority was advanced and rejected. See id. at 799-800 (MacKinnon, J., dissenting). After an extensive review of the legislative history of that provision, the court held that the FPASA, through § 486(a), was intended to give the President "broad-ranging authority" to issue orders designed to promote "economy" and "efficiency" in government procurement. Id. at 787-89. The court emphasized that "'[e]conomy' and 'efficiency' are not narrow terms; they encompass those factors like price, quality, suitability, and availability of goods or services that are involved in all acquisition decisions." Id. at 789; see also Peter E. Quint, The Separation of Powers under Carter, 62 Tex. L. Rev. 785, 792-93 (1984) (although § 486(a) "easily could be read as authorizing the President to do little more than issue relatively modest housekeeping regulations relating to procurement practice. . . . The Kahn court found congressional authorization of sweeping presidential power . . . ."); Peter Raven-Hansen, Making Agencies Follow Orders: Judicial Review of Agency Violations of Executive Order 12,291, 1983 Duke L.J. 285, 333 n.266; Jody S. Fink, Notes on Presidential Foreign Policy Powers (Part II), 11 Hofstra L. Rev. 773, 790-91 n.132 (1983) (characterizing Kahn as reading § 486(a) to grant President "virtually unlimited" authority).

The court then concluded that a presidential directive issued pursuant to § 486(a) is authorized as long as there is a "sufficiently close nexus" between the order and the criteria of economy and efficiency. Kahn, 618 F.2d at 792. Although the opinion does not include a definitive statement of what constitutes such a nexus, the best reading is that a sufficiently close nexus exists when the President's order is "reasonably related" to the ends of economy and efficiency. See id. at 793 n.49; Harold H. Bruff, Judicial Review and the President's Statutory Powers, 68 Va. L. Rev. 1, 51 (1982) ("in AFL-CIO v. Kahn, the court stated an appropriate standard for reviewing the basis of a presidential action -- that it be 'reasonably related' to statutory policies") (footnote omitted).

As one commentator has asserted, under Kahn, the President need not demonstrate that an order "would infallibly promote efficiency, merely that it [is] plausible to suppose this." Alan Hyde, Beyond Collective Bargaining: The Politicization of Labor Relations under Government Contract, 1982 Wis. L. Rev. 1, 26. In our view a more exacting standard would invade the "broad-ranging" authority that the court held the statute was intended to confer upon the President. See Kahn, 618 F.2d at 787-89. In addition, a stricter standard would undermine the great deference that is due presidential factual and policy determinations that Congress has vested in the President. See, e.g., Henry P. Monaghan, Stare Decisis and Constitutional Adjudication, 88 Colum. L. Rev. 723, 738 (1988).[2]

We have no doubt, for example, that § 486(a) grants the President authority to issue a directive that prohibits executive agencies from entering into contracts with contractors who use a particular machine that the President has deemed less reliable than others that are available. Contractors that use the less reliable machines are less likely to deliver quality goods or to produce their goods in a timely manner. We see no distinction between this hypothetical order in which the President prohibits procurement from contractors that use machines that he deems unreliable and the one the President has actually issued, which would bar procurement with contractors that use labor relations techniques that the President deems to be generally unreliable, especially when the Secretary of Labor and the contracting agency head each confirm the validity of that generalization in each specific case.

The preamble of Executive Order No. 12954 sets forth the President's findings that the state of labor-management relations affects the cost, quality, and timely availability of goods and services. The order also announces his finding that the government's procurement interests in cost, quality, and timely availability are best secured by contracting with those entities that have "stable relationships with their employees" and that "[a]n important aspect of a stable collective bargaining relationship is the balance between allowing businesses to operate during a strike and preserving worker rights." The President has concluded that "[t]his balance is disrupted when permanent replacement employees are hired." In establishing the policy ordinarily[3] to contract with contractors that do not hire permanent replacement workers, the President has found that he will advance the government's procurement interests in cost, quality, and timely availability of goods and services by contracting with those contractors that satisfy what he has found to be an important condition for stable labor-management relations.

The order's preamble then proceeds to set forth a reasonable relation between the government's procurement interests in economy and efficiency and the order itself. Specifically, the order asserts the President's finding that

> strikes involving permanent replacement workers are longer in duration than other strikes. In addition, the use of permanent replacements can change a limited dispute into a broader, more contentious struggle, thereby exacerbating the problems that initially led to the strike. By permanently replacing its workers, an employer loses the accumulated knowledge, experience, skill, and expertise of its incumbent

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[2] We do not mean to indicate a belief that Executive Order No. 12954 could not withstand a stricter level of scrutiny. We simply regard the employment of such a standard to be contrary to the holding of Kahn, as well as the view of the purposes of the FPASA and its legislative history upon which that decision expressly rests.

[3] Again, the order does not categorically bar procurement from contractors that have permanently replaced lawfully striking workers. The sanctions that the order would authorize would not go into effect if either the Secretary, with respect to either the termination or the debarment option, or the contracting agency head, with respect to the termination option, finds that the option would impede economy and efficiency in procurement.

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> employees. These circumstances then adversely affect the businesses and entities, such as the Federal Government, which rely on that employer to provide high quality and reliable goods or services.

We believe that these findings state the necessary reasonable relation between the procedures instituted by the order and achievement of the goal of economy and efficiency.

It may well be that the order will advance other permissible goals in addition to economy and efficiency. Even if the order were intended to achieve goals other than economy and efficiency, however, the order would still be authorized under the FPASA as long as one of the President's goals is the promotion of economy and efficiency in government procurement. "We cannot agree that an exercise of section 486(a) authority becomes illegitimate if, in design and operation, the President's prescription, in addition to promoting economy and efficiency, serves other, not impermissible, ends as well." Carmen, 669 F.2d at 821; see Rainbow Nav., Inc. v. Dep't of the Navy, 783 F.2d 1072 (D.C. Cir. 1986); Kimberley A. Egerton, Note, Presidential Power over Federal Contracts under the Federal Property and Administrative Services Act: The Close Nexus Test of AFL-CIO v. Kahn, 1980 Duke L.J. 205, 218-20.

Since the adoption of the FPASA, Presidents have consistently regarded orders such as the one currently under review as being within their authority under that Act. As the court explained in Kahn, Presidents have relied on the FPASA as authority to issue a wide range of orders. 618 F.2d at 789-92 (noting the history of such orders since 1941, especially to institute "buy American" requirements and to prohibit discrimination in employment by government contractors). Not surprisingly this executive practice has continued since Kahn. For instance, President Bush issued Executive Order No. 12800, which required all government contractors to post notices declaring that their employees could not "be required to join a union or maintain membership in a union in order to retain their jobs." 57 Fed. Reg. 12985 (April 13, 1992). The order was supported solely by the statement that it was issued "in order to . . . promote harmonious relations in the workplace for purposes of ensuring the economical and efficient administration and completion of Government contracts." Id.[4] This long history of executive practice provides additional support for the President's exercise of authority in this case. See Kahn, 618 F.2d at 790.[5] This is especially so where, as here, the President sets forth the close nexus between the order and the statutory goals of economy and efficiency.

It may be that in individual cases, a contractor that maintains a policy of refusing to permanently replace lawfully striking workers may nevertheless have an unstable labor-management relationship while a particular contractor that has permanently replaced lawfully striking workers may have a more stable relationship. As to such situations, however, the Secretary and the contracting agency heads retain the discretion to continue to procure goods and services from contractors that have permanently replaced lawfully striking workers if that procurement will advance the federal government's economy and efficiency interests as articulated in section 1 of Executive Order No. 12954.[6] We recognize that, even with these

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[4] This order is also significant insofar as it demonstrates that Executive Order No. 12954 is not the first in which a president has found that more stable workplace relations promote economy and efficiency in government procurement.

[5] "Of course, the President's view of his own authority under a statute is not controlling, but when that view has been acted upon over a substantial period of time without eliciting congressional reversal, it is 'entitled to great respect.' . . . [t]he 'construction of a statute by those charged with its execution should be followed unless there are compelling indications that it is wrong.'" Kahn, 618 F.2d at 790 (quoting Board of Governors of the Federal Reserve Sys. v. First Lincolnwood Corp., 439 U.S. 234 (1978), and Miller v. Youakim, 440 U.S. 125, 144 n.25 (1979)).

[6] The authority of an agency head is diminished somewhat, though not eliminated entirely, with respect to procuring from a contractor that the Secretary has debarred. An agency head may procure from a debarred contractor only for compelling reasons. See Exec. Order No. 12954, § 4. Nevertheless, the Secretary has authority to refuse to place a contractor on the debarment list in the first instance if the Secretary believes that debarment would not advance economy and efficiency.

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safeguards, it could happen that a specific decision to terminate a contract for convenience or to debar a contractor pursuant to the order might not promote economy or efficiency. The courts have held that it remains well within the President's authority to determine that such occurrences are more than offset by the economy and efficiency gains associated with compliance with an order generally. See Kahn, 618 F.2d at 793.[7]

Similarly, it would be unavailing to contend that Executive Order No. 12954 will secure no immediate or near-term advancement of the federal government's economy and efficiency procurement interests. Section 486(a) authorizes the President to employ "a strategy of seeking the greatest advantage to the Government, both short- and long-term," and this is "entirely consistent with the congressional policies behind the FPASA." Id. (emphasis added); cf. Contractors Ass'n v. Secretary of Labor, 442 F.2d 159, 170 (3d Cir.) (deciding on basis of President's constitutional rather than statutory authority), cert. denied, 404 U.S. 854 (1971).

The FPASA grants the President a direct and active supervisory role in the administration of that Act and endows him with broad discretion over how best "to achieve a flexible management system capable of making sophisticated judgments in pursuit of economy and efficiency." Kahn, 618 F.2d at 788-89. As explained above, the President has set forth a sufficiently close nexus between the program to be established by the proposed order and the goals of economy and efficiency in government procurement.[8]

Finally, we do not understand the action of Congress in relation to legislation on the subject of replacement of lawfully striking workers to bear on the President's authority to issue Executive Order No. 12954. The question is whether the FPASA authorizes the President to issue the order. As set forth above, we believe that it does. Recent Congresses have considered but failed to act on the issue of whether to adopt a national, economy-wide proscription of the practice applying to all employers under the National Labor Relations Act

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[7] "[W]e find no basis for rejecting the President's conclusion that any higher costs incurred in those transactions will be more than offset by the advantages gained in negotiated contracts and in those cases where the lowest bidder is in compliance with the voluntary standards and his bid is lower than it would have been in the absence of standards." Kahn, 618 F.2d at 793.

[8] Moreover, we note that under the Supreme Court's recent decision in Dalton v. Specter, 114 S. Ct. 1719 (1994), it is unlikely that the President's judgment may be subjected to judicial review. It is clear that § 486(a) gives the President the power to issue orders designed to promote economy and efficiency in government procurement. See 40 U.S.C. § 486(a); Carmen, 669 F.2d at 821; Kahn, 618 F.2d at 788-89, 792-93. The Supreme Court has recently "distinguished between claims of constitutional violations and claims that an official has acted in excess of his statutory authority." Dalton, 114 S. Ct. at 1726. The Court held that

> where a claim "concerns not a want of [presidential] power, but a mere excess or abuse of discretion in exerting a power given, it is clear that it involves considerations which are beyond the reach of judicial power. This must be since, as this court has often pointed out, the judicial may not invade the legislative or executive departments so as to correct alleged mistakes or wrongs arising from asserted abuse of discretion."

Id. at 1727 (quoting Dakota Central Telephone Co. v. South Dakota ex rel. Payne, 250 U.S. 163, 184 (1919)); see also Smith v. Reagan, 844 F.2d 195, 198 (4th Cir.), cert. denied, 488 U.S. 954 (1988); Colon v. Carter, 633 F.2d 964, 966 (1st Cir. 1980); cf. Heckler v. Chaney, 470 U.S. 821 (1985); Chicago Southern Air Lines Inc. v. Waterman S.S. Corp., 333 U.S. 103 (1948).

Judicial review is unavailable for claims that the President had erred in his judgment that the program established in the order is unlikely to promote economy and efficiency. The FPASA entrusts this determination to the President's discretion and, under Dalton, courts may not second-guess his conclusion. The Court made it clear that the President does not violate the Constitution simply by acting ultra vires. see Dalton, 114 S. Ct. at 1726-27. Judicial review is available only for contentions that the President's decision not only is outside the scope of the discretion Congress granted the President, but also that the President's action violates some free-standing provision of the Constitution.

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("NLRA").[9] This action may not be given the effect of amending or repealing the President's statutory authority, for the enactment of such legislation requires passage by both houses of Congress and presentment to the President. See Metropolitan Washington Airports Authority v. Citizens for the Abatement of Aircraft Noise, Inc., 501 U.S. 252 (1991); INS v. Chadha, 462 U.S. 919 (1983). To contend that Congress's inaction on legislation to prohibit all employers from hiring replacement workers deprived the President of authority he had possessed is to contend for the validity of the legislative veto.

In Youngstown Sheet & Tube, it was considered relevant that Congress had considered and rejected granting the President the specific authority he had exercised. 343 U.S. at 586. There, however, the President did not claim to be acting pursuant to any statutory power, but rather to inherent constitutional power. In such a case, the scope of the President's power depends upon congressional action in the field, including an express decision to deny the President any statutory authority. Id. Youngstown Sheet & Tube is inapposite here because the President does not rely upon inherent constitutional authority, but rather upon express statutory authority -- § 486(a) of the FPASA. See Kahn, 618 F.2d at 787 & n.13.

Moreover, we note that Congress's action was far from a repudiation of the specific authority exercised in Executive Order No. 12954. Even if a majority of either house of Congress had voted to reject the blanket proscriptions on hiring permanent replacements for lawfully striking workers, contained in H.R. 5 and S. 55, this would denote no more than a determination that such a broad, inflexible rule applied in every labor dispute subject to the NLRA would not advance the many interests that Congress may consider when assessing legislation. The order, by contrast, does not apply across the economy, but only in the area of government procurement. Nor does the order establish an inflexible application, rather it provides the Secretary of Labor an opportunity to review each case to determine whether debarring or terminating a contract with a particular contractor will promote economy and efficiency in government procurement and further permits any contracting agency head to override a decision to debar if he or she believes there are compelling circumstances or to reject a recommendation to terminate a contract if, in his or her independent judgment, it will not promote economy and efficiency. In sum, the congressional action alluded to above simply does not implicate the narrow context of government procurement or speak to the efficacy of a flexible case-by-case regime such as the one set forth in the order.[10]

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[9] In the 102d Congress, The House of Representatives passed a bill to amend the National Labor Relations Act to make it an unfair labor practice for an employer to hire a permanent replacement for a lawfully striking employee. See H.R. 5, 102d Cong., 1st Sess. (1991). The House passed this legislation on a vote of 247-182. See Cong. Rec. H5589 (daily ed. July 17, 1991). The Senate considered legislation to the same effect. See S. 55, 102d Cong., 2d Sess. (1992). The legislation was not brought to the floor for a vote because supporters of the measure were only able to muster 57 votes to invoke cloture. See Cong. Rec. S8237-38 (daily ed. June 16, 1992).

Likewise, legislation to categorize the hiring of permanent replacement workers as an unfair labor practice was considered in the 103d Congress. The House of Representatives approved the legislation on a vote of 239-190. See Cong. Rec H3568 (daily ed. June 15, 1993). Again, the Senate did not bring the bill to a vote, because its supporters were unable to attract the supermajority required to invoke cloture. See Cong. Rec. S8524 (daily ed. July 12, 1994) (fifty-three senators voting to invoke cloture).

[10] We have found no indication in the legislative history that those opposing the proposed amendments to the NLRA even considered the specialized context of government procurement. See, e.g., S. Rep. No. 110, 103d Cong., 1st Sess. at 35-49 (1993) (stating minority views); H.R. Rep. No. 116, 103d Cong. 2d Sess., pt. 1, at 42-62 (1993) (minority views); H.R. Rep. No. 116, 103d Cong., 2d Sess., pt. 2, at 16-17 (1993) (minority views); H.R. Rep. No. 116, 103d Cong., 2d Sess., pt. 3, at 11-15 (1993) (minority views). Moreover, we note that at least some of the opposition to the legislation was based in part on concerns regarding the breadth of the legislation, see H.R. Rep. No. 116, pt. 1, at 45 (minority views) (emphasizing absence of "a truly pressing societal need" (emphasis added)), as well as its inflexibility, see id. at 62 (views of Rep. Roukema).

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The Kahn opinion fully supports this view. There the President promulgated voluntary wage and price guidelines that were applicable to the entire economy. Contractors that failed to certify compliance with the guidelines were debarred from most government contracts. See Exec. Order No. 12092, 43 Fed. Reg. 51,375 (1978). The order was issued in 1978 against the following legislative backdrop: In 1971 Congress passed the Economic Stabilization Act, which authorized the President to enforce economy-wide wage and price controls. In 1974, a few months after the Economic Stabilization Act expired, the Council on Wage and Price Stability Act ("COWPSA") was enacted. COWPSA expressly provided that "[n]othing in this Act . . . authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices rents, wages, salaries, corporate dividends, or any similar transfers." Pub. L. No. 93-387, § 3(b), 88 Stat. 750 (1974).

The court concluded that "the standards in Executive Order 12092, which cover only wages and prices, are not as extensive as the list in Section 3(b). Consequently, we do not think the procurement compliance program falls within the coverage of Section 3(b), but rather is a halfway measure outside the contemplation of Congress in that enactment." Kahn, 618 F.2d at 795. Similarly, Executive Order No. 12954 is a measure that operates in a manner (case-by-case determination) and a realm (government procurement exclusively) that was outside the contemplation of Congress in its consideration of a broad and inflexible prohibition on the permanent replacement of lawfully striking workers.

III

Congress, in the FPASA, established that the President is to play the role of managing and directing government procurement. Congress designed this role to include "broad-ranging authority" to issue orders intended to achieve an economical and efficient procurement system. Executive Order No. 12954, "Ensuring the Economical and Efficient Administration and Completion of Federal Government Contracts," represents a valid exercise of this authority.

PERMANENTLY REPLACED STRIKER

Senator BUMPERS. Second, how would you go about determining whether or not a striker had been permanently replaced? Do you have guidelines for that?

Secretary REICH. We are developing guidelines right now, Senator, for determining whether a striker has been permanently replaced.

Senator BUMPERS. So this has never been done before?

Secretary REICH. Sir?

Senator BUMPERS. This has never been done before?

Secretary REICH. Not with regard to this particular determination. But in most cases of which I am aware it is not too difficult to differentiate between temporary replacements and permanent replacements.

Senator BUMPERS. What if the company tells you, if we sign a contract tomorrow every one of these people can come back to their jobs they had before?

Secretary REICH. If that is a temporary replacement, if people can come back to the jobs they had before——

Senator BUMPERS. I know it is, but if they tell you that, despite what their intentions might be, if they openly tell you that, you would be rather bound by that, would you not?

Secretary REICH. We would have to examine the situation. At this point I cannot tell you what the evidentiary standard is.

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EARNED INCOME TAX CREDIT

Senator **BUMPERS**. Let me ask you a different question. I am not quarreling with that. I am just saying that sounds rather drastic.

What, if any, effect would the minimum wage increase to $5 have on the earned income tax credit? Would we save money from that or would it be keyed to something else?

Secretary **REICH**. No; the earned income tax credit would still be exactly as it is right now.

Senator **BUMPERS**. But the poverty level, it is keyed to the poverty level, and people who have been making $4.25 an hour are going to be making $5 an hour, and it seems to me that that puts them much closer to the poverty level and, therefore, get much less than they would get under the earned income tax credit.

Secretary **REICH**. Well, the data we have suggests that there is still going to be a gap. Let us say you have one earner and you have three members of the family. If you have an earned income tax credit of approximately $3,000, probably a little bit higher, right now you have a minimum wage worker at $8,500. The two together, even with the equivalent of food stamps, still do not put that family up to the poverty line.

Senator **BUMPERS**. I understand that, but it puts them closer and, therefore, reduces the amount they are entitled to of the earned income tax credit. If the poverty rate for a family of four is $15,000 and presently a worker is making $8,000 a year, they are entitled to an earned income tax credit, we will say, of $3,000, which I think is about the maximum.

If his income goes up, say, from $8,000 to $11,000, then he would not be entitled to the same $3,000.

Secretary **REICH**. You are assuming that the person is still beneath the poverty level.

Senator **BUMPERS**. Oh, yes. I am saying all of these people are beneath the poverty level. Otherwise I do not think they are eligible for earned income tax credit.

Secretary **REICH**. Right. But you are saying in your hypothetical example that the individual, even with the earned income tax credit and the increase in the minimum wage, is still under the poverty level.

Senator **BUMPERS**. Right.

Secretary **REICH**. I believe that the earned income tax credit would remain the same, but let me get back to you on that.

Senator **BUMPERS**. Would you, please.

Secretary **REICH**. And I will give you the precise notations, the precise data.

[The information follows:]

MINIMUM WAGE

The Earned Income Tax Credit (EITC) expansion has lifted hundreds of thousands of families out of poverty. The EITC and minimum wage are complimentary programs. Although extraordinarily helpful, the EITC imposes a 20-percent marginal tax rate on families whose income falls in the phase-out range. In addition, the EITC is typically received in a lump sum at the end of the year. By contrast, a minimum wage increase will make each hour of work pay more.

The Administration's EITC expansion was designed such that a full-time, year-round minimum wage worker would be able to lift a family of four out of poverty when his or her earnings were combined with the EITC an food stamps. The minimum wage is near its lowest real level in 40 years. At its current level, a full-time worker earning the minimum wage does not earn enough to lift a family of four out of poverty even with the EITC and food stamps. An increase in the minimum wage—even combined with the EITC—will make work a more attractive alternative to not working.

SUMMER YOUTH JOBS

Senator BUMPERS. One final question. I see my time is about up, too. I wanted to ask you about the summer jobs. Now, under the House bill as it presently exists do I understand we are going to have 1,200,000 summer youth jobs taken out?

Secretary REICH. For the summers of 1995–96, the entire program would be eliminated.

Senator BUMPERS. Are they scrapping the entire program?

Secretary REICH. Well, the authorization still remains on the books.

Senator BUMPERS. I am talking about the appropriation.

Secretary REICH. The program is gone.

Senator BUMPERS. They are rescinding all the money for summer youth jobs?

Secretary REICH. Yes.

Senator BUMPERS. Do you have any studies that show what the impact of summer youth jobs is on the crime rate in this country?

Secretary REICH. On the prime rate?

Senator BUMPERS. Crime rate.

Secretary REICH. On the crime rate. I was wondering if you knew something I did not know. [Laughter.]

Senator, I will look into it. I shared with the chairman some of the studies, at least the summaries of some of the studies, but I will look into it.

[The information follows:]

IMPACT OF THE SUMNER JOBS PROGRAM ON CRIME RATES

The summer jobs program serves over half a million 16- to 21-year-olds—an age group with particularly high crime rates. Further, large proportions of these youth are in inner-city neighborhoods, and such neighborhoods are characterized by high crime rates.

We do not have direct evidence on the effect of the summer jobs program on crime rates, but we do have estimates from other youth programs. The evaluation of the Job Corps completed in 1982 indicated that there was a 9 percent reduction in crime among males while they were in the program. The more recent evaluation of the non-residential JOBSTART demonstration found similar, but slightly lower, reductions in crime for males while they were in the program. The Supported Work demonstration did not find such a reduction in crime for youth while they were enrolled in the program.

Because the summer jobs program serves so many youth in inner-city neighborhoods, the program most likely has community-wide impacts on crime rather than simply the individual impacts reported in the evaluations discussed above. That is, the program not only reduces the likelihood that individual youth commit crime, but also more broadly reduces the number of youth hanging out on the street and the influence of youth gangs.

YOUTH UNEMPLOYMENT

Secretary REICH. One of the suggestions that we made when Congress was debating the crime bills was to do a saturation experiment, bringing down youth unemployment from perhaps 60 or 70 percent for urban out-of-school youth to the range of 20 percent, doing a baseline study of what crime was beforehand and then doing a follow-up study.

I know of no studies specifically that have looked at the relationship between jobs and crime. I do not think it is too difficult intuitively to conclude that there is a relationship, but our literature search——

Senator BUMPERS. Obviously we are relegating those youngsters to spending the summer in the pool hall by replacing these jobs. Of all the things the House has done, that is the greatest travesty to me. My time is up. Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Bumpers.

Senator Bumpers italicizes the same point that I made. I think you might find some statistics, if you take a look at what happened in the various cities. I do not know how big a statistical part of the total youth population is and what you are dealing with. But we really do need some hard evidence if these programs are to be saved, really if any programs are going to be saved.

Secretary REICH. Yes; Mr. Chairman, again I want to stipulate that we will get you that evidence. There is evidence, a lot of evaluations done in this area. In fact, if you look at all of the areas of social science, all of the areas of Government programs, there have been, I venture to say, more controlled experiments in areas of job training and youth jobs and employment and training than there has been in almost any other area.

So we will get you everything that we have. I did give you those summaries just now, but we will get you other studies.

I do not, however, know of a study directly relating the crime rate to summer job experiences.

Senator SPECTER. Well, Mr. Secretary, I took a look at the studies and they are really not very helpful. They really do not constitute evidence in support that is really solid or very meaningful. But let us see what you can produce.

Secretary REICH. OK. And again, Mr. Chairman, the summaries that I gave you just then were simply sentences taken out of the reports. So we will give you the reports specifically.

Senator SPECTER. Well, let us see what the reports say, if they really are in fact helpful.

[The information follows:]

SUMMER PROGRAM EVALUATIONS

The Office of Inspector General's audit and the Westat Inc.'s, study of the program year 1992 JTPA Summer Youth Employment and Training Program will be submitted under separate cover.

FEDERAL JOB TRAINING PROGRAMS

Senator SPECTER. Mr. Secretary, you talk about Federal job training programs and consolidating them, and there certainly are a great many in a great many Departments. And I would like to see what can be done in that regard. Would you undertake a survey of those job training programs, tell us which Departments have them, how many there are, what the functions are, how much money is being spent, and perhaps that is an area which could lead to some economies? May we see that at your earliest convenience?

[The information follows:]

163 FEDERAL PROGRAMS FOR EMPLOYMENT AND TRAINING, AS NEWLY INVENTORIED BY GAO

		Program Name and Number (within Department)	FY 95 BA $ m	Comments
		Department of Labor (DOL)		
A	1	JTPA IIA-Adult Training for the Disadvantaged	864	In the new Adult Workforce Development System
A	2	JTPA Title IIA State Education Programs	84	In the new Adult Education & Family Literacy System
A	3	JTPA Title IIA Incentive Grants	53	In the new Adult Workforce Development System
A	4	JTPA IIA Training Programs for Older Individuals	53	In the new Adult Workforce Development System
A	5	JTPA IIC Disadvantaged Youth	520	In the new School-to-Work System
A	6	JTPA Title IIC Youth-Incentive Grants	30	In the new School-to-Work System
A	7	JTPA Title IIC Youth-State Ed Programs	48	In the new School-to-Work System
A	8	JTPA IIB-Summer Youth Employment and Training	1,040	In the new School-to-Work System
A	9	JTPA IIB-Summer Jobs-Native Americans	16	In the new School-to-Work system. Special population, special needs. [a]
A	10	JTPA EDWAA--Dislocated Workers (SDA Allotment)	519	In the new Adult Workforce Development System
A	11	JTPA EDWAA--Dislocated Workers (Governors' 50% Discretionary)	518	In the new Adult Workforce Development System
A	12	JTPA EDWAA--Dislocated Workers (Secretary's 20% Discretionary)	259	In the new Adult Workforce Development System
A	13	JTPA Defense Conversion Adjustment Program	0	Unfunded authority included in the new Adult Workforce Development System
A	14	JTPA Defense Diversification Program	0	Unfunded authority included in the new Adult Workforce Development System
A	15	JTPA Clean Air Employment Transition Assistance	0	Unfunded authority included in the new Adult Workforce Development System
C	16	JTPA-Migrant and Seasonal Farmworkers	86	Inappropriate to consolidate. Special population, special needs
A	17	JTPA Employment and Training R & D	12	In the new Adult and Youth systems; federal R & D.
A	18	JTPA Employment and Training Pilots & Demos	36	In the new Adult and Youth systems; federally administered demonstrations.
C	19	JTPA-Native American Employment and Training	64	Inappropriate to consolidate. Special population, special needs. [a]
B	20	JTPA Job Corps	1,099	Inappropriate to consolidate. Special population, special needs. Linked to School-to-Work.
A	21	Federal Bonding Program	0	Authority included in the new Adult Workforce Development System
C	22	Senior Community Service Employment Program	411	Inappropriate to consolidate. Subsidized jobs for low-income elderly; not job training
D	23	Apprenticeship Training	17	Inappropriate to consolidate; federal regulatory activity only; not job training
C	24	Trade Adjustment Assistance	231	Inappropriate to consolidate. Special population, special needs.
D	25	Targeted Jobs Tax Credit	10	Authorization expired in CY 1994. Administrative costs only.
A	26	Employment Service-Wagner Peyser State Grants	761	In the new Adult Workforce Development System
A	27	Employment Service-Governor's Discretionary Funds	85	In the new Adult Workforce Development System
A	28	Labor Certification For Alien Workers	51	In the new Adult Workforce Development System
A	29	Interstate Job Bank	15	In the new Adult Workforce Development System

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Department of Labor (DOL)--continued

A	30	Youth Fair Chance	25	In the new School-to-Work System; targeted job training initiative.
A	31	One Stop Career Centers	120	In the new Adult Workforce Development System
C	32	Veterans Employment Program (JTPA Title IV - C)	9	Inappropriate to consolidate. Special group, special needs. Linked to Adult Workforce System.
C	33	Disabled Veterans Outreach Program	84	Inappropriate to consolidate. Special group, special needs. Linked to Adult Workforce System.
C	34	Local Veterans Employment Representative Program	78	Inappropriate to consolidate. Special group, special needs. Linked to Adult Workforce System.
C	35	Homeless Veterans Reintegration Project	5	Inappropriate to consolidate. Special group, special needs. Linked to Adult Workforce System.
A	36	Job Training for the Homeless Demonstration	0	Authorization expired
C	37	NAFTA--Transitional Adjustment Assistance	43	Inappropriate to consolidate. Special population, special needs.

Department of Education (ED)

A	1	Even Start-State Educational Agency	99	In the new Adult Education & Family Literacy System
A	2	Even Start-Migrant Education	3	In the new Adult Education & Family Literacy System
D	3	Women's Educational Equity Program	4	Inappropriate to consolidate; not job training
C	4	Indian Education-Adult Education	5	Inappropriate to consolidate. Special population; special needs.
D	5	Migrant Education-HS Equivalency Program	8	Terminated in the 1996 Budget.
D	6	Migrant Ed-College Assistance Migrant Program	2	Terminated in the 1996 Budget.
D	7	School Dropout Demonstration Assistance	28	Terminated in the 1996 Budget; 1995 rescission proposed.
A	8	Adult Ed-State Administered Basic Grant	252	In the new Adult Education & Family Literacy System
A	9	Adult Education for the Homeless	9	In the new Adult Education & Family Literacy System
A	10	National Adult Education Discretionary Program	9	In the new Adult Education & Family Literacy System
A	11	Voc Ed-Demo for Integration of Voc and Academic Lng	10	In the new School-to-Work System
A	12	Voc Ed-Ed Programs for Fed Correctional Institutions	--	Unfunded--authority in the new School to Work System; authority included in #24
A	13	Voc Ed-Comprehensive Career Guidance and Counseling	--	Unfunded--authority in the new School to Work System; authority included in #24
A	14	Voc Ed-Blue Ribbon Voc Ed Programs	--	Unfunded--authority in the new School to Work System; authority included in #24
A	15	Voc Ed-Model Programs for Regional Training, Skill Trades	--	Unfunded--authority in the new School to Work System; authority included in #24
A	16	Voc Ed-Business/Education/Labor Partnerships	--	Unfunded--authority in the new School to Work System; authority included in #24
A	17	Voc Ed-Tribally Controlled Post-Sec Voc Institutions	3	In the new School-to-Work System.
C	18	Tribal Economic Development	0	Program not recognized
A	19	Vocational Education-Basic State Programs	974	In the new School-to-Work System. Inc.: State grants; State councils; territories; Smith/Hughes
A	20	Voc Ed State Programs and Activities	--	In the new School-to-Work System; authority included in #19
A	21	Voc Ed-Single Parents, Homemakers, Pregnant	--	In the new School-to-Work System; authority included in #19

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Department of Education (ED)--continued

A	22	Voc Ed - Sex Equity	--	In the new School-to-Work System; authority included in #19
A	23	Voc Ed-Programs for Criminal Offenders	9	In the new School-to-Work System.
A	24	Vocational Education-Cooperative Demonstration--All National Pgms	25	In the new School to Work System
A	25	Voc Ed-Opportunities for Indian & Hawaiian Natives	15	In the new School-to-Work System.
A	26	Voc Ed-Community Based Org.	9	Terminated in the 1996 Budget; 1995 rescission proposed.
D	27	Vocational Education-Bilingual Vocational Training	0	Terminated in FY 1995
A	28	Voc Ed-Demo Centers for Dislocated Workers	0	Unfunded.
A	29	Voc Ed - Consumer and Homemaking	34	Terminated in the 1996 Budget; 1995 rescission proposed.
A	30	Vocational Education-Techprep Education	108	In the new School-to-Work System.
A	31	National Workplace Literacy Pgm [Workplace literacy partnerships]	19	In the new Adult Education & Family Literacy System
A	32	Literacy for Incarcerated Adults	5	In the new Adult Education & Family Literacy System
C	33	National Center for Deaf-Blind Youth and Adults [Keller center]	7	Inappropriate to consolidate; special services for the deaf and blind
A	34	State Literacy Resource Centers	8	In the new Adult Education & Family Literacy System
D	35	Student Literacy Corps	0	Terminated in FY 1994
A	36	Federal Pell Grant Program	5,990	Part of the Adult Workforce Development System; 95 figure is program level, not BA
A	37	Federal Family Education Loans (Guaranteed Student Loans)	6,319	Part of the Adult Workforce Development System
D	38	Federal Supplemental Educational Opportunity Grants	583	Inappropriate to consolidate; provides school flexibility.
D	39	Upward Bound	190	Inappropriate to consolidate; provides support services in high schools
D	40	Talent Search	78	Inappropriate to consolidate; provides support services in high schools
D	41	Federal Work-Study Program	617	Inappropriate to consolidate; provides school flexibility.
D	42	Federal Perkins Loan Program-Fed. Capital Contr.	158	Inappropriate to consolidate; provides school flexibility.
D	43	Grants to States for State Student Incentives	63	Terminated in the FY 1996 Budget (two-year phaseout)
D	44	Educational Opportunity Centers	25	Inappropriate to consolidate; supports #41 and #42.
D	45	Student Support Services	144	Inappropriate to consolidate; provides school flexibility.
C	46	Postsec Ed Programs for Persons with Disabilities	9	Inappropriate to consolidate. Separate reforms proposed for Individuals with Disabilities Act
C	47	Rehabilitation Services Basic Support-Grants to States	2,044	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.

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Department of Education (ED)--continued

C	48	Rehabilitation Services Basic Support-Grants for Indians	10	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997
C	49	Rehabilitation Services-Hand. Mig/Seasonal Farm Workers	1	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997
C	50	Rehabilitation Services-Special Projects, Severe Disabilities	20	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.
C	51	Rehabilitation Services Supported Employment Projects	11	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.
C	52	Projects with Industry Programs	22	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.
C	53	Supported Employment for Individuals with Severe Handicaps	37	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.
C	54	Comprehensive Services for Independent Living	22	Inappropriate to consolidate. Programs for the disabled subject to reform proposals in 1997.
A	55	Library Literacy	8	In the new Adult Education & Family Literacy System
D	56	Public Library Services	83	Inappropriate to consolidate; not job training.
A	57	Federal Direct Student Loan Program	0	Part of the Adult Workforce Development System
A	58	Workplace Transition Training for Incarcerated Youth Offenders	0	In the new School-to-Work System.
A	59	Native Hawaiian Education--Community-Based Educ Learning Ctrs	0	In the new School-to-Work System.
D	60	Community School Partnerships	0	Inappropriate to consolidate; provides school flexibility
D	61	21st Century Community Learning Centers	1	Inappropriate to consolidate; provides school flexibility

Other Departments

		Appalachian Regional Commission (ARC)		
D	1	Appalachian Voc. & Other Educational Facilities & Operations	2	Inappropriate to consolidate. Targets special geographic area
		Corporation for National and Community Service (CNCS)		
D	1	Literacy Corps	5	Inappropriate to consolidate. Volunteer program; not job training
D	2	Foster Grandparent Program	68	Inappropriate to consolidate. Volunteer program for low-income elderly; not job training
D	3	Senior Companion Program	31	Inappropriate to consolidate. Volunteer program for low-income elderly; not job training.
		Department of Agriculture (Ag)		
A	1	Food Stamp Employment and Training	165	Part of the Adult Workforce Development System

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		Department of Commerce (DOC)		
D	1	Minority Business Development Centers	24	Inappropriate to consolidate. Not primarily education or training.
C	2	American Indian Program	2	Inappropriate to consolidate. Special group; special needs. Not primarily ed or training.
D	3	Economic Development-Grants for Public Works & Develop.	195	Inappropriate to consolidate. Not primarily education or training.
D	4	Economic Development-Public Works Impact Program	0	Inappropriate to consolidate. Not primarily education or training.
D	5	Economic Development - Support for Planning Organizations	22	Inappropriate to consolidate. Not primarily education or training.
D	6	Economic Development-Technical Assistance	11	Inappropriate to consolidate. Not primarily education or training.
D	7	Economic Development - State and Local Economic Planning	5	Inappropriate to consolidate. Not primarily education or training.
D	8	Special Economic Development & Adjustment Assist. Program	19	Inappropriate to consolidate. Not primarily education or training.
D	9	Community Economic Adjustment	0	Inappropriate to consolidate. Not primarily education or training.
		Department of Defense (DoD)		
D	1	Military Base Reuse Studies & Comm. Planning Assist.	39	Inappropriate to consolidate. Provides services to businesses, communities, & States
C	2	Transition Assistance Program	72	Inappropriate to consolidate. Special group; special services. Not directly job training.
		Department of the Interior (DOI)		
C	1	Indian Employment Assistance	18	Inappropriate to consolidate. Special group; special services. [a]
C	2	Indian Grants - Economic Development	3	Inappropriate to consolidate. Special group; special services. [a]
		Department of Justice (DOJ)		
D	1	Ounce of Prevention Grant Program	2	Inappropriate to consolidate. Grants to localities; not education or training
D	2	Local Crime Prevention Block Grant Program	0	Inappropriate to consolidate. Grants to localities; not education or training
D	3	Assistance for Delinquent and At-Risk Youth	0	Inappropriate to consolidate. Grants to non-profit organizations; not ed or training
D	4	Police Recruitment	0	Inappropriate to consolidate. Grants to localities to hire police; not education or training
D	5	Local Partnership Act	0	Inappropriate to consolidate. Grants to localities relating to law enforcement
D	6	National Community Economic Partnership	0	Inappropriate to consolidate. Assists businesses; not education or training
D	7	Substance Abuse Treatment in Federal Prisons	0	Inappropriate to consolidate. Drug treatment pgms in prisons; not education or training
		Department of Transportation (DOT)		
C	1	Transit Planning and Research Program	1	Inappropriate to consolidate. Special group; special srvcs (fellowships) for transit professionals.

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		Department of Veterans Affairs (DVA)		
C	1	All-Volunteer Force Education Assistance	924	Inappropriate to consolidate. Special group; special services.
C	2	Selected Reserve Educational Assistance Program	100	Inappropriate to consolidate. Special group; special services.
C	3	Survivors and Dependents Educational Assistance	98	Inappropriate to consolidate. Special group; special services.
C	4	Vocational Rehabilitation for Disabled Veterans	319	Inappropriate to consolidate. Special group; special services. Not primarily ed or training.
C	5	Post-Vietnam Era Veterans Educational Assistance	77	Inappropriate to consolidate. Special group; special services.
C	6	Vocational Training for Certain Veterans Receiving VA Pension	1	Inappropriate to consolidate. Special group; special services.
C	7	Vocational & Educational Counseling for Servicemen & Veterans	6	Inappropriate to consolidate. Special group; special services.
C	8	Service Members Occupational Conversion & Training	15	Inappropriate to consolidate. Special group; special services.
C	9	Health Care for Homeless Veterans	29	Inappropriate to consolidate. Special group; special services. Not primarily ed or training.
C	10	Domiciliary Care for Homeless Veterans	28	Inappropriate to consolidate. Special group; special services. Not primarily ed or training.
C	11	Housing and Urban Develop. Vet's Affairs- Supported Housing	2	Inappropriate to consolidate. Special group; special services. Not primarily ed or training.
		Health and Human Services (HHS)		
B	1	Job Opportunities and Basic Skills Training	1,300	Inappropriate to consolidate. Included in welfare reform.
D	2	Community Services Block Grant	400	Inappropriate to consolidate. Not primarily education or training
D	3	Community Services Block Grant-Discretionary Award	33	Terminated in the 1996 Budget
D	4	Community Services Block Grant-Disc-Demo Partnerships	8	Terminated in the 1996 Budget
C	5	Refugee and Entrant Assistance-Discretionary Grants	130	Inappropriate to consolidate. Special group; special services.
C	6	Refugee and Entrant Assistance-State Administered	239	Inappropriate to consolidate. Not primarily education or training
C	7	Refugee and Entrant Assistance-Voluntary Agency Programs	39	Inappropriate to consolidate. Special group; special services.
D	8	Family Support Centers Demonstration Program	7	Terminated in the 1996 Budget
D	9	State Legalization Impact Assistance Grants	0	Program ending
D	10	Transitional Living for Runaway and Homeless Youths	14	Inappropriate to consolidate. Not primarily education or training
D	11	Independent Living	70	Inappropriate to consolidate. Not primarily education or training
D	12	Scholarships for Health Professions Students, Disadvantaged	6	Inappropriate to consolidate. Included in PHS consolidation proposal
D	13	Health Careers Opportunity Program	27	Inappropriate to consolidate. Included in PHS consolidation proposal

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		Housing and Urban Development (HUD)		
D	1	Emergency Shelter Grants	157	Inappropriate to consolidate. Not primarily education or training
C	2	Supportive Housing Demonstration	34	Inappropriate to consolidate. Special services for homeless; program indirectly benefits
A	3	Youthbuild	50	In the new School-to-Work System.
C	4	Family Self-Sufficiency	17	Inappropriate to consolidate. Special srvcs for pub housing tenants; program indirectly benefits
D	5	Service Coordinators	30	Inappropriate to consolidate. Works with residents of assisted housing; not ed or training.
D	6	Empowerment Zone and Enterprise Community Program	640	Inappropriate to consolidate. An addition--not primarily ed or training--to a block grant. [b]
		Office of Personnel Management (OPM)		
D	1	Federal Employment for Disadvantaged Youth--Summer	0	Inappropriate to consolidate. Federal agencies provide summer jobs
		Small Business Administration (SBA)		
D	1	Business Development Assistance to Small Business	23	Inappropriate to consolidate. Provides services to businesses.
D	2	Procurement Assistance to Small Business	16	Inappropriate to consolidate. Provides services to businesses.
D	3	Minority Business Development	23	Inappropriate to consolidate. Provides services to businesses.
D	4	Service Corps of Retired Executives Association	3	Inappropriate to consolidate. Volunteer program providing services to businesses.
C	5	Veterans Entrepreneurial Training and Counseling	0	Inappropriate to consolidate. Special group; special needs.
D	6	Mgmt. & Tech. Assist. for Soc. & Econ. Disadvantaged Business	8	Inappropriate to consolidate. Provides services to businesses.
D	7	Women's Business Ownership Assistance	4	Inappropriate to consolidate. Provides services to businesses.
D	8	Small Business Development Center	74	Inappropriate to consolidate. Provides services to businesses.

a. Native American E & T programs are integrated by PL 102-477, which gives tribal governments flexibility to plan and administer jointly Federal E & T and related programs.

b. Following GAO, the $640m shown is the FY 95 additional appropriation for the Social Services Block Grant. A small portion--currently unknown--may go for ed or training.

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CONSOLIDATION OF JOB TRAINING PROGRAMS

Secretary REICH. Yes; indeed, Mr. Chairman, the President is recommending a consolidation of more than 70 separate job training programs that we have been talking about for some years.

Senator SPECTER. So what has happened? Did you know that there were 70 before he made the recommendation?

Secretary REICH. Well, we helped him prepare the recommendation.

Senator SPECTER. Did you know that there were 70 before you helped him prepare the recommendation?

Secretary REICH. When I got to the Department of Labor 2 years ago, I did not know that there were that many job training programs. We began to look into the number of job training programs right away.

Senator SPECTER. How long ago did he make the request?

Secretary REICH. He asked us to look into the question as soon as he became President and I got to be Secretary of Labor.

Senator SPECTER. Well, that was more than 2 years ago.

Secretary REICH. Yes; in fact, we had a bill last year that started the consolidation of all dislocated worker programs. Unfortunately, there were a lot of other issues in front of that bill, so the Senate did not get a chance to enact that piece of legislation.

I believe that this is an area ripe for strong bipartisan support. I have talked extensively to Mrs. Kassebaum about it and other Republicans on the House side, and there is very strong interest in doing this.

IMMIGRATION CONTROL

Senator SPECTER. Well, let us see what it discloses. That may be an item where there is considerable saving, which would offset what we are being asked to rescind now. Let us see just how fast you can get that to us, so that we can find an alternative saving.

Let me turn now to the immigration targeted enforcement, $16 million, that Senator Kohl had started to ask you about. Would this not be better allocated to the principal agency which has responsibility for immigration control, the Department of Justice?

Secretary REICH. Our proposal, Mr. Chairman, is to have an immigration program that is mostly allocated to the Immigration and Naturalization Service [INS]. But there are certain things that the INS, cannot do, such as enforcement of minimal labor standards, minimum wage, working conditions, and safety. We have the expertise. We are working in league with the Immigration and Naturalization Service.

Senator SPECTER. But isn't this——

Secretary REICH. The plan is to—I'm sorry.

Senator SPECTER. No, you go ahead.

Secretary REICH. The plan is for us to enhance our activities to ensure that minimal workplace standads are maintained, while the Immigration and Naturalization Service continues its activities to make sure that undocumented aliens are not being employed.

Now, the two are very complementary in the sense that some of those undocumented aliens, as I mentioned before to the Senator, are here because employers know that they are unlikely to complain about subminimal working conditions and standards. And that is why it is necessary for us to demagnetize that kind of magnet.

Senator SPECTER. Well, it looks to me, sounds to me, as if it really is being directed at illegal aliens, and if so would it not be better under one umbrella instead of adding to your Department?

How many—by the way, let me ask a second question. Bad form before you answer the first one. But how big is that unit now? How much money do you spend in that unit at the present time?

Secretary REICH. Right now, Mr. Chairman, with regard to the Wage and Hour Division, we have about $117 million for the budget request in fiscal year 1996. The employment level for wage and hour has decreased over the last 15 years even as the number of workplaces to be patrolled has increased considerably, up beyond 6 million.

Again, let me get back to the first part of your question. We have created a project in which the Immigration and Naturalization Service, because they are rooting out illegal aliens, cannot very easily receive complaints from undocumented aliens about unfair, unsanitary, or subminimal working conditions. It stands to reason that those undocumented aliens are not going to complain to the INS because they are going to find themselves very quickly shipped back to wherever they came from.

ILLEGAL IMMIGRATION

We believe that vigorous targeted enforcement of existing employment standards serves as a meaningful deterrent to illegal migration by denying some of the business advantages that might be gained through the employment of highly vulnerable and exploitable workers at substandard wages and working conditions. Labor law enforcement not only helps ensure fairness and minimally acceptable employment standards in the workplace, but also helps foster a level competitive playing field for employers who seek to comply with the law. Stepped up labor standards enforcement, in conjunction with enhanced employer sanctions enforcement, contributes to a comprehensive approach to deterring the employment of illegal immigrants.

Senator SPECTER. Well, that is a very large increase, about 16 percent, 15, 16 percent, from $101 million to $117 million for that function, important as it is. But I see your theory in tying it into the illegal immigration approach. That is the lead-in.

Well, the increases are all going to be under quadruple scrutiny, as you know.

Senator Harkin.

Senator HARKIN. Sorry, I had to meet with my county supervisors.

Senator BUMPERS. You missed your turn by leaving.

REPEAL OF DAVIS-BACON

Senator HARKIN. The only thing I had, and I do not know if somebody brought it up, and if they did maybe I will just read the record on this: Mr. Secretary, some Members of the House have proposed repeal of the Davis-Bacon Act requirements on Federal contracts. I have been a long-time supporter of Davis-Bacon. I have seen the good it can do.

I just want to know if you want to comment on the impact on the labor force and on the quality of the products of Government-financed contracts, if Davis-Bacon were repealed?

Secretary REICH. Senator, let me start just by briefly stating that it is the policy of this administration to enforce and fully endorse the Davis-Bacon Act and the principles upon which it is based. The Government, coming into a local labor market, can exert heavy influence because of its bargaining power, on local prevailing wages. That is not fair to the local labor force or to local employers. And we intend to do everything we must do to preserve the Davis-Bacon Act and maintain that fairness.

It is estimated that there are more than one-half million construction workers in the United States who receive prevailing wages pursuant to the Davis-Bacon Act. Because the Federal Government has to award contracts to the lowest bidder, it would not be good policy to push contractors to lower wages in order to make the lowest bid, pull in contractors from outside the region, including employees from outside the region, and undermine locally prevailing wages.

That is not good policy.

GI BILL

Senator HARKIN. I agree with you and I hope we can keep it. I know there is going to be a run made on it this year on the House side, and we will see what we can do here on the Senate side.

My last question, Mr. Secretary, has to do with the GI bill for workers rights. What would happen to the proposed consolidations of employment and training programs if Congress fails to pass the President's proposal?

Secretary REICH. Senator, if Congress fails to pass the bill, despite a lot of bipartisan support for consolidating and streamlining job training programs, we still are only dealing with the tip of the iceberg in terms of the needs of American workers for effective job training.

I mentioned earlier that, with regard to low wage disadvantaged workers, the current set of job training programs is only touching about 5 to 10 percent of the entire group. With regard to dislocated workers, we are touching about 20 percent of dislocated workers.

There is a lot that we can do and have been doing administratively to make better use of those dollars, taking money out of those initiatives that do not work and putting money into initiatives that do work, that help people get jobs.

So all I can say to you is that there is still a crying need out there. I hope and expect that we are going to have new authorization and new legislation, but American workers still need help.

Senator HARKIN. Thank you very much, Mr. Secretary. I do not have anything else.

Senator SPECTER. Thank you, Senator Harkin.

Senator Bumpers.

SUMMER JOB WORKERS

Senator BUMPERS. Thank you, Mr. Chairman.

Mr. Secretary, how many workers were in summer job programs last summer?

Secretary REICH. There were about 568,000, participants last summer.

Senator BUMPERS. Where did the 1,200,000 come from?

Secretary REICH. That is the two summers, the summer of 1995 and the summer of 1996.

Senator BUMPERS. And 1996.

Secretary REICH. Both.

Senator BUMPERS. So they are rescinding this year and next year?

Secretary REICH. They are rescinding this year and next year.

Senator BUMPERS. You said that a moment ago. I do not think it really registered on me. I see what you are saying now.

Secretary REICH. $1.7 billion is rescinded, and again I want to stress to you——

Senator BUMPERS. 1.7?

Secretary REICH. $1.7 billion total rescission for the summer jobs program.

Senator BUMPERS. Mr. Secretary, a second thing. I have three Job Corps centers in my State and one of them is operated privately, by a private firm. It is also the one which I get the most mail on, about drugs and violence and all kinds of things. The other two—they are all three about the same age and they have all, I think, performed reasonably well.

The other two, CASS and Ouachita, I do not get any squawks much at all on those. But as I understand it, the head of the Job Corps training programs in this country is pretty hot to privatize these job training centers. And I have a very strong apprehension about that. You know, everything is trendy now. We are going to privatize everything. And I belong to the "Wait Just a Minute" club when you start talking about privatizing.

I am not saying it is bad in every instance, but I can tell you oftentimes it is not as advertised, it does not turn out as advertised.

What is your own view on that?

Secretary REICH. My own view, Senator, is that I am interested in results. We have subjected the Job Corps to very detailed evaluation and analysis over the last 2 years. We now have a one strike and you are out policy with regard to violence. In fact, we just announced it recently. We have had some problems at a couple of Job Corps centers probably because we are taking these kids from the most disadvantaged areas of this country, where they are coming from violent neighborhoods, but we cannot tolerate it. It is a zero tolerance policy.

If you are asking me whether the private contractors or the public contractors are doing better, I say back to you, quite frankly, I do not care. I am looking at results. If a private contractor or if a public contractor is not doing what they should do, we are going to change. And we have already made some changes in contractors if they are not producing the results and they are not making sure that every taxpayer dollar is wisely spent.

PRIVATIZED JOB CORPS CENTERS

Senator BUMPERS. Do you know what percentage of the Job Corps centers in this country now are privatized?

Secretary REICH. I am told that it is about 80 percent now privatized.

Senator BUMPERS. About 80 percent?

Secretary REICH. More precisely, 73 percent are privatized.

Senator BUMPERS. How many people are enrolled in these job centers on any given day, Job Corps centers?

Secretary REICH. About 41,000 students are enrolled in any one day.

Senator BUMPERS. Is this an isolated case I described in Little Rock?

Secretary REICH. We have had a couple of incidents. In fact, we recently had one other Job Corps center in Knoxville where we had a death, and we moved very quickly to change not only the contractor, but also actually to close that center and move those young people to other places.

And again, we are not going to tolerate any violence. We are going to change contractors. We have already changed on my watch a number of contractors. We are going to be very vigilant.

All I can say is that, going back to the point that the chairman made initially, it is my philosophy to support what works. If it is not working, we are changing direction. Job Corps had a full-scale, full-blown evaluation 10 years ago. We are doing a new evaluation right now, but that old evaluation showed that for every dollar that the public puts into the Job Corps they are getting about $1.46 back in terms of young people who are otherwise avoiding crime and drugs and teenage pregnancies and becoming taxpaying citizens.

Now, all of the indicators we have since that comprehensive study was done show that all of the various indicia by which we judge Job Corps have been doing better and better. I would expect this new study to show as good a result, if not better results, for Job Corps than we had before. Remember, this is a terribly difficult population. These are the hardest kids to train.

Senator BUMPERS. I know.

Secretary REICH. And society cannot turn its back on these kids.

DISLOCATED WORKERS

Senator BUMPERS. Mr. Chairman, with your indulgence I would just like to make this observation also about these job training programs. If you look at the base closing chart, my State is not hit hard, 247 jobs at Fort Chafee. But there are 1,600 Arkansans who work at the Red River Arsenal just 30 miles over into Texas, so I am greatly concerned about dislocated worker benefits, dislocated worker job training programs.

If you could give us, give this committee, any kind of thoughts that you have, I would like for you to do it in writing—I will not take up the time of the committee now—as to what impact some of these cuts are going to have on dislocated workers and your inability to accommodate. I do not know, probably somewhere between 50 and 100,000 people are going to be dislocated as a result of these base closings. That would be very helpful to me, and I would like to be able to impart that information, in case we are not able to save these places, and I am not optimistic about it. But I would like to have something from the Labor Department dealing with how you are going to be capable of or not be capable of helping these people with dislocated worker training programs.

Secretary REICH. I will get that to you, Senator.

[The information follows:]

ASSISTANCE AVAILABLE UNDER DISLOCATED WORKER PROGRAM

JTPA TITLE III

Title III of the Job Training Partnership Act (JTPA) provides funds to States and local substate grantees to help dislocated workers find and qualify for new jobs. Workers who have lost their jobs and are unlikely to return to their previous industries or occupations are eligible for services. This includes workers who lose their jobs because of plant closures or mass layoffs; individuals dislocated as a result of defense down-sizing; long-term unemployed persons with limited job opportunities in their fields; and farmers, ranchers and other self-employed persons who become unemployed due to general economic conditions.

Eighty percent of the annual Title III appropriation is distributed in the form of formula grants to States for services such as on-site assistance to workers and employers when major layoffs are announced; reemployment services such as career exploration and job search assistance; retraining in demand occupations; and supportive services such as child care so workers can participate in training.

Congress has given the Secretary of Labor the authority and resources with the remaining 20 percent of the Title III funding (Secretary's national reserve account) to respond to plant closures and mass layoffs in areas where formula grant funding is inadequate to meet the unanticipated need; to provide technical assistance to improve the quality of the services; to develop innovative and more effective responses to layoffs such as those needed to serve workers impacted by defense-downsizing including Base Realignment and Closure Commission (BRAC) related closures; and the unique massive dislocations caused by natural disasters.

DEFENSE-RELATED DISLOCATIONS

Approximately $255 million in Department of Defense and Department of Labor Title III funds have been used to provide vital assistance to workers in the public and private sectors of the defense industry. Defense-related layoffs in the private sector are continuing with up to an additional 25 to 30 percent reduction in defense-related layoffs in the private sector expected within the next 2 to 3 years:

—More than $140 million has been awarded to States and local areas and employers to provide retraining and reemployment services to about 37,000 defense industry workers. About $35 million of that amount came from the Secretary's Title III national reserve account.

—Additional services are provided to workers employed by small and mid-sized defense contractors (estimated $200–$300 million) from Title III formula funds.

Approximately $115 million in funding, of which over $7 million was from the Title III national reserve account, has been provided to States and local areas to serve about 28,000 defense workers in the public sector at 48 military installations and bases affected by Base Realignment and Closure Commission (BRAC) decisions in 1991 and 1993. The Department of Defense recommendations to the BRAC suggest that about another 34,000 workers employed on military bases and installations will be dislocated by the end of the next two years.

About $1.2 million of the $115 million provided to serve defense workers in the public sector was awarded to the State of Arkansas to serve individuals dislocated as a result of BRAC-related realignments at Fort Chaffee.

If the Red River Arsenal remains on the list for closure or realignment and the State of Texas submits a request for assistance for the impacted workers that can be considered for funding, the Department will act expeditiously to provide an appropriate level of financial assistance as it has in the past for similar requests.

Funds appropriated to Defense and transferred to the Department to serve workers impacted by defense-downsizing have been depleted. The only resource available to assist these workers is the Secretary's Title III national reserve account.

RESCISSION IMPACT

A reduction of $99.3 million to the Title III program reduces the funding increase from 1994 by more than 50 percent. States and local communities will serve fewer dislocated workers and those they serve will be provided with a lower level of assistance. Over 52,000 dislocated workers will not get the reemployment and retraining services they need.

PROPOSED RESCISSION FOR DISLOCATED WORKERS

Secretary REICH. Let me just add that the proposed rescission in the House for dislocated workers is $99 million at the very time when military bases are closing, when companies are downsizing, and when the demand among workers for help in getting new jobs and getting guidance in how to get new jobs is greater than ever.

It just is a false economy. When you are talking about employment and job training and job search assistance and other help in getting jobs, we do not want to cut back at this time. We want people to get work as fast and as expeditiously, and efficiently as they possibly can.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Bumpers.

Mr. Secretary, the projections on the budget for your Department show a significant decrease, going down to $13.3 billion in the year 2000. And I had written to you on March 1 alerting you to the question about increasing the high priority investment programs in light of the projected decreases in your budget, with the obvious issue of how those new programs could be sustained when your budget was going to go down.

How can that be done?

Secretary REICH. Mr. Chairman, we are right now engaged in a reinvention exercise to see if there are not ways in which we can, by the President's request, reduce still further, by 3 percent in 1997, 5 percent in 1998, 7 percent, in 1999, and 9 percent in 2000 through the better use of technologies and more flexible workforce. Like any private sector operation, we should be able to get those savings. We are working on developing them right now.

The increase comes because the President feels very strongly that we have got to deal with dislocated workers and low-wage workers and get them the kind of assistance necessary to make them fully productive so that the economy benefits overall. The President has been willing in his 1996 budget to take the money elsewhere out of the Federal budget to provide enough money to help Americans get the skills they need.

And although we are going to continue to reinvent and look for every saving possible, that increase you see is a result of the President's desire to increase the funds available to dislocated workers and to unemployed and low-wage workers to get skills.

ADDITIONAL JOB CORPS CENTERS

Senator SPECTER. Well, that is a fine generalization, but I do not think it really comes to grips with the specifics. You want the additional Job Corps centers. How are you going to be able to fund it with the budget coming down?

Secretary REICH. Again, let me make two points, and I will make them even more specifically. The President has asked every Department and agency to undertake an exercise in reducing 3, 5, 7, 9 percent our out-year budgets. This is an exercise to see what we can save administratively in terms of accomplishing our mission more efficiently.

That does not mean that the President in 1997 plans to reduce the Department of Labor's budget by 3 percent. It means that, in fact, the President may choose, as he has over the past 2 years, to submit a budget that actually increases the Department of Labor's budget and take those savings from another place in the Federal Government.

He has not made those decisions as yet. The point is that we are engaged in that exercise. Those out-year estimates are estimates that apply to every Department of the Federal Government and do not reflect the President's decisions as to how those savings are going to be allocated. What you see between 1995 and 1996 is the President's decision to take money from elsewhere in the Federal budget where there are savings, where he has cut programs, to put more money into helping Americans get better jobs.

Now, we are going to continue to be engaged in this exercise to look for savings. But you should not assume that, merely because that 3-, 5-, 7-, 9-percent reduction is a goal for every Department, that necessarily any individual Department is going to have that budget cut. In fact, if the past 2 years are any guide, given the centrality of human resources in the President's budget, it may very well be that he decides in 1997 to increase the budget request for the Department of Labor.

I cannot say at this point because he has not made those decisions.

TEENAGE PREGNANCY

Senator SPECTER. Mr. Secretary, during last year's hearing you stated that there was a direct correlation between higher levels of training and education and lower levels of unwanted teenage pregnancy. Do you have any sense or perhaps even evidence as to whether the Labor Department's training programs have reduced teen pregnancy?

Secretary REICH. Mr. Chairman, again we will get you that detailed information. Let me just say that the evidence we have with regard to disadvantaged young people in programs such as Job Corps and the CET program in San Jose, suggests a correlation between training and the avoidance of many of the problems that young people get into, whether it is crime or other forms of social deviance.

I will get you summaries of all those studies, we will provide it for the record.

[The information follows:]

STUDY ON TRAINING PROGRAMS REDUCING PREGNANCY

Teen parenthood is strongly related to the educational, and career aspirations of youth. This is true for both males and females, to the extent that hope is considered to be the best contraceptive. Further, young women with poor basic education skills are two and a half times more likely to become teen parents than young women with average skills and four times more likely to have more than one child while in their teens. Certainly, then, early interventions in schools that boost the achievement levels of youth and their chances of going to college hold the most promise for preventing teen parenthood.

The evaluation of the Job Corps completed in 1982 showed strong impacts for reducing teen pregnancy among the young women enrolled in the program. The Entitlement demonstration of the late 1970's—which saturated inner-city areas with jobs for youth—also apparently reduced teen pregnancy. However, the JOBSTART non-residential job training demonstration did not reduce pregnancy among the young women served. Neither did the STEP demonstration, which added remedial education and life skills components to summer jobs.

Three recent demonstrations aimed at young women who have already had children have shown positive impacts in some areas such as increasing school enrollment, but not in reducing subsequent pregnancies. Most recently, a pilot study of the Ford Foundation's Quantum Opportunity Program—which provided services to youth throughout their four years of high school—found that only 24 girls and boys in the treatment group have become teen parents as opposed to 38 youth in the control group.

Overall, these various results suggest that comprehensive programs such as the Job Corps and early interventions such as the Quantum Opportunities Program can reduce teen pregnancy, but that once a young women becomes a teen parent it is very difficult to reduce subsequent pregnancies.

Senator SPECTER. Mr. Secretary, thank you. I told you yesterday that I intended to ask you a question about comments which you had made in a political context, being critical of the new administration. And I think we have provided that article to you as of yesterday or at least in advance of the hearing today. Have we?

Secretary REICH. I am sorry, Mr. Speaker, excuse me, Mr. Chairman, did you say critical of the new administration?

Senator SPECTER. I do not know quite how to take that.

Secretary REICH. Yes; I have this article right here.

Senator SPECTER. OK, fine. My staff tells me that you had been provided it yesterday. I just want to be sure you have had adequate notice.

Secretary REICH. I have read the article, yes.

Senator SPECTER. OK. My concern, Mr. Secretary, is about the working relationship, say, between you and me, or between this subcommittee and your Department, when you start right off in a speech which was apparently given on January 5—the news article is on January 6—which says:

> Labor Secretary Robert B. Reich led the Clinton Administration's first attack on the newly convened Republican Congress yesterday, defining the choice between their rival economic programs as a battle for the soul of anxious working Americans. In a major speech cleared by the White House that revealed much about President Clinton's political strategy for the next 2 years, Reich blasted the main GOP economic proposals as retread Reaganomics that benefit only the rich. He stressed that Clinton's proposals, by contrast, were targeted to help low-skilled workers adapt to unavoidable economic change.

I expressed to you my own concern when I read that, that it might have been a little premature before we sat down to have the hearings and try to figure out how we were going to work together. Certainly I had called you substantially in advance of that speech, suggesting cooperation, raising the point of looking cooperatively for ways to have economies, which we all know were coming, and preserve the best of the programs.

My question is, why start off the new Congress on that line?

Secretary REICH. Mr. Chairman, let me say a few things. No. 1, I did not intend to tar with a very broad brush. In fact, I try to avoid crass generalizations in my most recent speeches. And I have looked up every time that I have said anything that is even gently critical of the Republicans. I have said, in fact in the most recent speech I find here: "I am not describing all Republicans, just the ones on the outer edge of the orbit."

Senator SPECTER. Did you say that on January 5?

Secretary REICH. Well, I do not have the January speech right here. But let me say one other thing. The first 2 years——

Senator SPECTER. Well, I did not know we were going to get into a second speech, but let me see the text so we can go through that as well.

Secretary REICH. Well, I will supply all texts. I do not know what was quoted.

Senator SPECTER. Well, this was a January 5 speech. Did you not make a January 5 speech?

Secretary REICH. I made a January 5 speech, yes.

Senator SPECTER. So that is the quotation.

Secretary REICH. Well, was it quoted? That is interesting. My copy of the paper does not have quotations here. What you read was a summary.

Senator SPECTER. Well, that is true.

Secretary REICH. If I may——

Senator SPECTER. But wait a minute. On the continuing page there is a quotation: "If the elections of 1994 were in many respects the result of the anxious class, the next 2 years will be a battle for the anxious class' soul."

Secretary REICH. Yes; I certainly said that.

Senator SPECTER. OK. So you did say that, and the question then would be, Is this newspaper summary inaccurate?

Secretary REICH. There are two prevailing philosophies.

Senator SPECTER. Answer my question first, if you can.

Secretary REICH. I think that the report is inaccurate in the sense that I did not tar all Republicans with the same brush. But Mr. Chairman, there are different philosophies here. You know as well as I, that all Republicans do not share the same philosophy.

The first 2 years of this administration I think we had enormously cooperative working relationships. We did a lot in education and job training. I am hoping that we are going to continue to have very strong and very positive working relationships.

It is undoubtedly clear, however, that a group of House Republicans, with regard to the Contract With America, have set out a philosophy of Government in certain respects the administration agrees with, but in certain respects the administration disagrees with. And I will continue, as will other administration officials, to point out the differences.

This is not to be taken personally. This is a matter of public debate and public deliberation, which makes our democracy what it is. I have nothing against Republicans per se. My grandfather, rest in peace, was a Republican.

Senator SPECTER. Some of your best relatives were Republicans.

Secretary REICH. My father, before he saw the light, was a Republican as well. I came to work in Washington for the first time in 1974 in the Ford administration. My first boss, and here I'm revealing something——

Senator SPECTER. We have that in your dossier, Mr. Secretary.

Secretary REICH. I am glad you saved me from what I was about to reveal. But my point, and it is quite a serious point, is that there will over the next 2 years be many occasions in which I or other administration officials point out what we feel to be are deficiencies in what some Republicans are saying and deficiencies in certain bills that are being proposed.

I said today that I think the rescissions that are coming out of the House Appropriations Committee that are supported by Republicans and that are being managed by Republicans, are wrong. They are dead wrong.

Senator SPECTER. Mr. Secretary, I respect that and understand that. If you deal specifically with the bills, I think that is your duty, or if you deal specifically with individuals, when you called me "Mr. Speaker" before, I could understand that.

But the broad brush attack I just think is worthy of my calling to your attention and to have this brief discussion. I am not unaware that there are certain political overtones, but I am more aware that you and I have a lot of tough work to do together. And I have mentioned it and by the time this hearing is over I will have forgotten about it. But I do think it is worth mentioning.

Secretary REICH. And I take your point. But I hope you also will understand, if you ever hear a news clip, a sound bite of me that might be taken somewhat out of context, I hope you understand that this is part of the deliberative process and I am going to call it as I see it. I do not tar all Republicans with the same brush and I try to avoid crass generalizations whenever possible.

Senator SPECTER. Well, if I should see such a clip, observe such an article, I will save it for next year. We do not have too much time in between.

Secretary REICH. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator SPECTER. Thank you very much, there will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

TEN PERCENT BELOW FY 1995 LEVEL

Question: Provide for the record an impact assessment of 10 percent across-the-board cuts for all Labor Department programs in fiscal year 1996.

EMPLOYMENT AND TRAINING ADMINISTRATION

Answer: Funding training and employment programs in 1996 at 10 percent below the 1995 appropriated levels would have the following impacts (only major programs discussed):

TITLE II-A ADULT TRAINING GRANTS: The 1996 request of $1.055 billion would be reduced $105.5 million and would result in 36,500 fewer disadvantaged adults being assisted.

TITLE II-B SUMMER YOUTH: A reduction of $87.2 million below the 1995 level of $871.5 million would result in a funding level of $784.4 million, $174.1 million less than the 1996 request of $958.5 million. This would result in approximately 97,300 fewer disadvantaged youth being able to work during the summer.

TITLE II-C YOUTH TRAINING GRANTS: A reduction of $59.9 million to the 1995 funding level of $598.7 million result in a funding level of $538.8 million, an increase of $249.8 million over the 1996 request of $289 million. The Administration would not propose to fund this program above its request level.

TITLE III DISLOCATED WORKER ASSISTANCE: A reduction of $129.6 million would reduce the program to $1.166 billion, slightly above the 1994 appropriation and $230 million below the 1996 request of $1.396 billion. This would result in approximately 120,400 fewer workers participating in program than projected under the President's 1996 request.

Native Americans: A reduction of $6.4 million would reduce the program to $57.7 million, $4.2 million below the 1996 request of $61.9 million. This would result in approximately 1,700 fewer participants receiving services under this the program than projected under the President's 1996 request.

Migrants and Seasonal Farmworkers: A reduction of $8.6 million to the 1995 funding level would reduce the 1996 funding level to $77 million, $1.2 million below the 1996 request of $78.3 million. If this program is funded at 10% below the 1995 level, 55,100 people would receive training and employment assistance.

Older Americans: A reduction of $41.1 million to the 1995 funding level would reduce the 1996 funding level to $369 million resulting in 9,500 fewer participants receiving services under this program than projected under the President's 1996 request.

JOB CORPS: Job Corps would be reduced by $110 million below the 1995 appropriation to $989.5 million, $240 million below the 1996 request of $1.227 billion. The impact would be as follows:

- PY 1996 funding reduced to 10% below PY 1995 level or ($989,514,000).
- Work proceeds at 8 "5050" centers initiated under 1993 and 1994 Appropriations.
  - 4 of these centers are activated in PY 1996.
  - Construction at the 4 remaining sites proceeds in PY 1996 with activation scheduled for PY 1997.
- It is assumed that the 4 new centers authorized in the 1995 Appropriations are cancelled.
- 1996 funding reduction below current request is $238,201,000. Absorbed as follows:
  - $149,485,000 in operating funds for existing centers, necessitating the closing of 15 to 19 existing Job Corps Centers having combined capacity of 6,640 training slots.
  - $30,000,000 in CRA - "Backlog Reduction" funds for existing centers.
  - $10,667,000 in CRA - "Keep Pace" funds for existing centers.
  - $31,250,000 in CRA funds that had been requested to proceed with the 4 new centers that had been authorized for initiation under the 1995 Appropriation.
  - $16,799,000 in CRA funds that had been requested to start 4 new centers in 1996.

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School-to-Work. The FY 1996 request of $400 million provides a $150 million increase over the 1995 level of $250 million. The impact of a 10% reduction below the 1995 appropriated level to $225 million would be similar to that at the $250 million 1995 level. However, continuation awards to the eight FY 1994 implementation states, the estimated twenty FY 1995 states and the estimated 41 Local Partnership grants would have to be reduced by more than one-fourth.

Unemployment Insurance Program. The impact of funding the Unemployment Insurance program at a 10 percent reduction from the FY 1995 appropriated level would be to reduce the FY 1996 President's request of $2,469 billion (excluding $67.8 million for the contingency reserve fund) by $369 million to $2.100 billion. Aside from the 10 percent reduction, the States would also not be funded for the requested increases for: costs of inflation, workload growth in number of subject employers, and the increase in workload for number of UI claims. These factors would have a disabling effect on the Unemployment Insurance program. State programs would be affected in the following ways:

- approximately 7,000 State staff would be laid off (currently about 46,700 are funded);
- a significant number of local offices would be closed (currently about 1,800);
- service to the claimants would decline because of delays in processing benefits; and
- a loss of program integrity due to overpayment of benefits and under-collection of taxes.

Given the mandatory nature of paying unemployment insurance benefits, the States might view a reduction of this magnitude as the imposition of an unfunded mandate. The States must still pay the benefits and collect the taxes, but would not have adequate resources to do so. In addition, the States would not be able to make the necessary investments in their programs which might result in cost savings over time. The impact would be to create a system that is inefficient and increasingly unproductive compared to the current technology.

Employment Service: A 10 percent reduction below the 1995 appropriated level for Employment Service Allotment to States would provide a funding level for 1996 of $761.3 million. The $761.3 million funding level for 1996 would be $44.6 million below the Administration's 1996 request level of $805.9 million and $84.6 million below the 1995 appropriated level. The Administration's 1996 request level proposes a $40 million reduction below the 1995 appropriated level of $845.9 million. The effects of the $40 million reduction in 1996 will be mitigated by the conversion of States to One-Stop systems. The One-Stop seed money will facilitate the integration of programs and services that will reduce duplication of effort. However, the reduction of an additional $44.6 million will have a damaging effect on the Employment Service. This additional adjustment would cause services to both individuals and employers to be reduced significantly. Additionally, States would need to layoff staff and in many instances close local offices.

One Stop Career Centers: A reduction of $12 million below the 1995 appropriated level of $120 million to $108 million, $92 million below the 1996 request of $200 million, would significantly reduce the pace and breadth of One-Stop system-building. In 1996, the six initial Implementation States are entering the third and final year of implementation; the next round of funded States are entering their second year of implementation. The majority of these resources under this level would be directed to this continuing financial support (at levels likely reduced from State request) and the continued implementation of America's Labor Market Information system. With a three year investment path of $50 million, $120 million, and $108 million, it is likely the Department would sustain the first-year and second-year States with the ability to make only make small investments in new grantees -- e.g., 2 - 3 new States.

The Department's partnership with the States to rebuild and expand the capacity of the State LMI systems to deliver quality products to our customers is off to an excellent start. A reduced ALMIS share of $108 million in FY 1996 One-Stop system-building funds would have serious consequences for the multi-year, Federal-State workplan for the improvement of LMI products, the training of LMI professionals and user/consumers, as well as on-line access to LMI in the States. Promising Federal-State technology investments (including backbone or wide area networks) supporting these ALMIS objectives would be scaled back or abandoned. The ability to begin and sustain the standard wage information program would be compromised, and the system's capacity for short-term, training-focused forecasts of growth occupations would be curtailed. With One-Stop/ALMIS funding providing capital in the development consumer reports for those seeking first jobs, next jobs, and better jobs would be delayed in One-Stop States and potentially postponed in other States.

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Program Operations: Funding ETA S&E at 10 percent below the FY 1995 appropriation will result a funding level of $125.8 million, $13.5 million below the 1995 appropriation. This level will finance 1,293 FTE compared to the 1995 ceiling of 1,529, a 17 percent reduction. Additionally, nonpersonnel services would be cut severely. Such a reduction will most certainly impact on the ability of the agency to adequately oversee its programs and oversee the implementation of the new workforce development strategy.

OFFICE OF THE AMERICAN WORKPLACE

Answer: OWP - A reduction in OWP's FY 1996 budget to a level 10% below FY 1995 levels would render OWP incapable of fulfilling its mission, achieving its program goals or meeting its performance agreement commitments as they are presently constituted. As stated above, OWP was funded at the FY 1994 comparable level in FY 1995. OWP's FY 1995 appropriation, therefore, does not provide for any mandatory or program increases for this activity. As a result, funding OWP at 10% below the FY 1995 level in FY 1996 would be comparable to funding OWP at 10% below the FY 1994 level. In addition to taking the actions identified in the responses above, OWP would be forced to eliminate all workplace agenda activities, severely curtail its commitment to statutory programs, and impose mandatory employee furloughs.

OLMS - A 10% reduction ($2,400,000) would be achieved by (1) cutting discretionary spending (primarily equipment and travel) by $1,635,000, (2) additional FTE attrition reductions of $280,000, and (3) approximately 8 staff furlough days for each of the approximately 300 OLMS employees ($485,000).

An 8-day staff furlough and travel reductions would require OLMS to reduce its enforcement activities (primarily the number of lower priority criminal investigations and compliance audits of labor organizations) and compliance assistance. In addition, most planned technology improvements would be eliminated by significant reductions in the discretionary equipment account. OLMS would be forced to (1) continue its current PC/manual system of processing union financial reports for public disclosure rather than implement more efficient optical scanning technology, and (2) cease publication of certain pamphlets and other materials designed to help union officials voluntarily comply with the LMRDA.

Please not that this scenario assumes that OLMS would not be required to absorb the $5,600,000 Teamsters election budget "pass-through" to DOJ requested in the FY 96 budget. If such is not the case, OLMS cannot absorb the $5,600,000 without severe reductions in virtually every program activity and very lengthy furloughs for all staff.

Lengthy across-the-board staff furlough would be extremely disruptive to all OLMS activities and require OLMS to stop or delay many of its criminal and civil enforcement programs, including active embezzlement investigations and compliance audits. Planned compliance assistance activities would also be canceled, public disclosure responsibilities negatively affected, and program-related reinvention projects delayed. Only the most critical, statutorily required enforcement work would continue, such as election investigations, court-ordered supervised elections (such as the massive Carpenters case now in progress), and court appearances for criminal prosecutions.

PENSION AND WELFARE BENEFITS ADMINISTRATION

Answer: A reduction of ten percent below PWBA's FY 1995 appropriated level equates to a cut of about $18.8 million below the agency's FY 1996 budget request. Such a reduction would have a devastating effect on the agency's ability to carry out an effective compliance, regulatory and enforcement program.

In addition to elimination of all proposed funding increases for electronic filing and the long term associated savings, compliance assistance, customer support initiatives, enforcement automation enhancements, and funds requested to cover the agency's increasing expert witness costs associated with investigations and litigation, a reduction of this magnitude would effectively translate into the loss of approximately 160 FTE (or a cut of nearly 27 percent) from the proposed FY 1996 level of 608 FTE. Nearly 97 percent of PWBA's FTE comprise the agency's regulatory and enforcement efforts. Consequently, a reduction of this magnitude would virtually leave an ERISA enforcement and regulatory program in name only.

Additionally, PWBA requested a program increase of $3 million to fund the agency's Electronic Filing Initiative -- a recommendation by the National Performance Review -- which involves a revamping of the Form 5500 processing system. This requested funding would be utilized in designing computer software that would enable filers to submit Form 5500 data in electronic

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format rather than through paper filings. When fully implemented, the proposed electronic filing initiative will improve the quality of filings, shorten the processing time and streamline the process for converting Form 5500 data into electronic format and reduce the Government's costs associated with capturing and processing the data.

Timely and accurate Form 5500 data used for detecting prohibited transactions and other signs of financial irregularities are critical to effective enforcement of ERISA. Without the requested $3 million for the electronic filing initiative, PWBA's ability to protect the pension funds of America's private sector workers will be diminished.

Maintaining an adequate level of resources is critical if PWBA enforcement is to remain an effective deterrent to pension and health plan fraud and abuse. If the public is to continue to support a private system, then we must demonstrate that we can ensure its integrity. A massive cut such as this would paralyze PWBA's enforcement capability and, as a consequence, one can logically expect that health and pension plan fraud and abusive practices would likely skyrocket.

In sum, a reduction of anything even close to this proposal would threaten the retirement and benefit security of millions of American workers and retirees. Further, it would substantially increase the Pension Benefit Guaranty Corporation's (PBGC) potential liability, and erode public confidence in private pension and health systems.

PENSION BENEFIT GUARANTY CORPORATION

Answer: A 10% cut in the Corporation's limitation budget would prevent the full implementation of the Premium Accounting System. This would affect the collection, processing, and accurate accounting of over a billion dollars in annual premium payments. A 10% cut would also delay PBGC's computer systems initiative designed to address problems in the Corporation's financial management program cited by GAO.

EMPLOYMENT STANDARDS ADMINISTRATION

Answer: An FY 1996 funding level which is 10% (or $52,978 million below the FY 1996 Request Level) below the FY 1995 Enacted Level would result in the following:

Wage and Hour would not be able to effectively maintain a targeted enforcement program aimed at egregious and willful violators. Complaint inventories would become virtually unmanageable. Employers who voluntarily comply with the laws enforced by Wage and Hour would be put at a distinct competitive disadvantage with firms that do not comply. Wage and Hour would have little or no impact on improving the level of compliance. Wage and Hour would also have to eliminate its immigration, compliance assistance, enforcement, streamlining initiatives.

A further reduction of $11.823 million and 219 FTE would be necessary after the elimination of the four initiatives. Wage and Hour could finance only 1,085 FTE (689 investigators) which represents a total FTE reduction of 405 (309 investigators) from the FY 1996 Request level. With such a large portion of Wage Hour's budget devoted to employee compensation, a hiring freeze would need to be implemented for all of FY 1996 and approximately 45 furlough days would be required. This would result in a reduction of 22,600 compliance actions and $59.3 million in agreements to pay for more than 130,700 employees from the Request level (including results associated with the immigration initiative).

The Office of Federal Contract Compliance Programs (OFCCP) would suffer an approximate 12% reduction in FTE (from 808 to 714), resulting in 846 fewer compliance reviews and 188 fewer complaint investigations being conducted. All enforcement, general and training travel funding would be eliminated. As a result, OFCCP would be forced to conduct desk audit only reviews of contractors not located within commuting distances of an OFCCP field office. OFCCP would also be required to eliminate regional director and managers' meetings, short circuiting the dialogue among managers and adversely impacting on the decision making process and information dissemination. Additionally, OFCCP would have to forego its plans for development of an Affirmative Action Program Summary Report, which when implemented would dramatically reduce the paperwork burden on Federal contractors.

In the Office of Workers' Compensation Programs (OWCP), FECA would be required to cancel expansion of the Periodic Roll Management Project and lose approximately $73 million in potential FECA compensation benefit savings through FY 2000 and continuing annual savings beyond FY 2000 of $13 million; terminate the current nine-office PRM Project with 94 term FTE, losing approximately $40 million in potential compensation benefit savings through FY 2000 and $5.7 million in continuing annual savings beyond FY 2000; and terminate 102 permanent FTE or furlough all permanent and PRM staff for 47 days (approximately one day per week per person). Staff reductions or furloughs of this magnitude would produce over 46,000 lost production days, stretch staff even further to address the already large and time-consuming FECA workloads, and result in serious deterioration in claims processing and customer service. Time delays would increase dramatically and workload inventories would grow.

Successive cuts in personnel and other resources during the past several years have reduced available resources in the Longshore program to a bare minimum. Consequently, a reduction at 10% below the FY 1995 enacted level would require an elimination of 35 FTE (or 30 percent of the 116 authorized) or furloughing each staff member 43 days each in FY 1996. Such reductions, with the attendant disruption of offices, would have an extremely severe impact on all aspects of customer service.

Reductions under each of the above scenarios would require possible terminations and furlough days in all ESA programs and would all but eliminate funding for training (e.g., compliance officer, investigator, claims examiner, and managerial training), ADP equipment and enhancements, and Permanent Change of Station (PCS) moves. This would severely hamper ESA's reinvention and downsizing initiatives, organizational streamlining, and the programs' reengineering and other major work processing initiatives, which rely heavily on the programs being able to shift staff to balance attrition as downsizing occurs and to retrain personnel as offices implement improved technology and new approaches to accomplishing the agency's mission. The lack of sufficient funding for relocations would also affect the agency's ability to fill critical managerial and front-line staff vacancies with the most qualified candidates.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

At this level, OSHA's FY 1996 level would be $281.2 million; a funding level less than that appropriated five years ago. The agency would be forced to institute significant reductions in force, resulting in less inspections, training and education, and compliance and technical assistance. Programs for our state partners, including grants and consultation, would be reduced by over $17.0 million. The impact on workplace injuries and illnesses would be dramatic. A reduction of over $65.0 million from our FY 1996 request would seriously undermine OSHA's ability to fulfill its mission to protect workers. OSHA would reexamine its objectives and current organizational structure to align available resources with the basic programmatic requirements of the OSH Act.

At this level, OSHA will attempt to maintain a plausible presence in the workplace that at least provides minimal Government commitment to safety and health. Unsafe workplaces are costly to society, and increases in workers' compensation payments indicate that the problem is severe. OSHA can make a difference, but not without basic funding to maintain a credible program presence in the workplace and the financial and staff resources necessary to provide employers and employees with the assistance required to achieve safety and health in the workplace.

MINE SAFETY AND HEALTH ADMINISTRATION

Answer. A 10 percent cut from the FY 1995 appropriated level represents a $31.5 million funding reduction and a 396 FTE employment reduction from the fiscal year 1996 request. The impact of a cut of this magnitude would undermine all our past efforts to achieve mine safety and health.

Each year approximately 100 miners die in job related accidents and approximately 10,000 are seriously injured. One miner dies for every five million hours worked. While these numbers make America's mines among the safest in the world, they are unnecessarily and unacceptably high. There is no reason why we cannot achieve the twin goals of improved health and increased safety so that this country's miners do not need to face the risk of death and disease as a routine part of their jobs.

With this reduced funding level, no funds would be provided for the program increases I proposed in our fiscal year 1996 request. We would not be able to address the concerns in the health program, safety in small and contractor-operated coal mines, and outdated inspection equipment. We would suffer all of the negative impacts listed above for a scenario freezing funding at FY 1995 levels plus the impacts of an additional $20 million reduction.

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Cuts of this magnitude require slashing enforcement resources directed at the completion of the mandatory inspections or eliminating resources for compliance assistance, education and training and technical support provided to the mining community to eliminate known hazards. Regardless of the decision, the ultimate loser would be the miner.

Because of the hazardous nature of mining, Congress in enacting the Federal Mine Safety and Health Act of 1977 required at least four annual inspections of every underground mine in its entirety and at least two inspections of every surface mine. The facts continue to support the underlying premise of the Federal Mine Safety and Health Act of 1977 -- that regular inspections are an essential ingredient in an effective safety and health program.

Since 1980, MSHA has reduced staffing by more than 30 percent while continuing to maintain its core inspection personnel so that mandated inspection requirements can be met. Over the past five years, MSHA has completed over 95 percent of its mandated inspections. With these reductions, the completion rate would drop to around 75 percent, and a large number of mines and miners would not receive the protection or proven benefits of the mandated inspections.

Elimination of MSHA's important compliance assistance efforts would be equally problematic. MSHA would not be able to focus its efforts to provide compliance assistance to mine operators through better accident analysis, along with dissemination of informational and educational materials, followed by enforcement activities. We would not be able to undertake model programs like the Agency's current emphasis on surface haulage accidents. MSHA's data show that accidents involving mobile haulage equipment comprise about 20 percent of the fatalities at surface mines during the past 5 years. MSHA's analysis of the accidents reveal that many were preventable if compliance with existing regulations had occurred. Having identified the issue, MSHA provided educational materials to the industry, followed by a series of focused inspections of surface haulage equipment at mine sites. The Agency also conducted seminars on surface haulage equipment maintenance and compliance at sites near mining communities across the nation. Just since January 1995, more than 1,000 miners and mine operators have attended these seminars. This is just one example of MSHA's efforts to work cooperatively with labor and management to solve serious health and safety problems at the mines that would be eliminated by these cuts.

Additionally, at this level of funding Coal and Metal/Nonmetal program areas would have to eliminate accident prevention inspections, technical investigations and other compliance assistance visits; the State Grants program would be eliminated or drastically reduced; training provided to the industry at the MSHA Academy in Beckley, WV would be eliminated; and technical assistant to the mining industry would be virtually eliminated.

To meet the demands of this 10 percent cut, a combination of one or two furlough days per month and the reduction-in-force (RIF) of several hundred employees with large costs related to severance pay and dislocation of workers will be required. The reductions are simply too large to be taken through attrition.

Prevention of accidents is best achieved when we attack the hazards and risks from several directions -- including enforcement, education, training and commitment from the top management of the industry to the miner. Cuts of this magnitude will halt the steady progress that has been made over the years and result in needless pain and suffering, financial loss to our economy and increased deaths in the mining industry.

BUREAU OF LABOR STATISTICS

Answer: Given that BLS has implemented budget reductions totaling more than $130 million in the recent past, an additional ten percent reduction would require BLS to prioritize its remaining core programs. Statistical programs required by law and economic indicators required to track the overall course of the economy would receive the highest priority, with the result that cuts of the magnitude of ten percent would focus on local area data programs, such as local area unemployment statistics and locality wage surveys.

A ten percent reduction from 1995 levels is approximately $60 million below the pending request and would require a 13% reduction in base programs, as well as the elimination of funding for the Consumer Price Index (CPI) revision. Even if the BLS attempted to continue the revision of the CPI while other BLS programs were being reduced, a reduction of this magnitude would compromise the timely completion of the revision. Programs that BLS would consider reducing or eliminating, in addition to the local area data programs already mentioned, include: Occupational Employment Statistics, International Prices, Occupational Safety and Health Statistics, and Industry Productivity measures.

To the extent possible, BLS would supplement program cuts with streamlining activities, but the BLS budget submissions for 1993, 1994 and 1995 already have proposed streamlining initiatives amounting to $10,559,000 and 99 FTE. Although the BLS continues to search for additional large scale program efficiency opportunities, no significant streamlining options beyond those already proposed have been identified.

BLS would like to call the Subcommittee's attention to the fact that, beginning in 1995, the BLS budget includes temporary funding and positions to carry out the work involved in revising the Consumer Price Index. All funds and positions requested for this activity will be phased out once this critical effort is completed. In addition, it should be noted that the CPI revision plans include a proposal to incorporate computer assisted data collection in the revamped CPI program. If funded, this project will enable BLS to reduce significantly the FTE required to produce the CPI on an ongoing basis.

It needs to be emphasized that a reduction of this magnitude would make a reduction-in-force and/or furloughs of employees a very real possibility.

DEPARTMENTAL MANAGEMENT

Answer: Summarized below is a table outlining the impact in FY 1996 of cutting funding 10% below the appropriated level for FY 1995 --

Budget Activity	Request Level	Reduction	Revised Level
Program Direction and Support......	$26,232,000	-$7,301,400	$18,930,600
Legal Services......................	$75,827,000	-$12,601,100	$63,225,900
International Labor Affairs.........	$12,950,000	-$1,905,200	$11,044,800
Administration and Management......	$15,503,000	-$1,975,100	$13,527,900
Adjudication.......................	$38,295,000	-$4,667,400	$33,627,600
Employment of People w/ Disabilities	$4,772,000	-$825,500	$3,946,500
Women's Bureau.....................	$8,973,000	-$1,439,100	$7,533,900
Civil Rights.......................	$5,038,000	-$625,300	$4,412,700
Chief Financial Officer............	$5,120,000	-$845,000	$4,275,000
Total - Departmental Management S&E	$192,710,000	-$32,185,100	$160,524,900

A reduction of $7,301,400 in the Program Direction and Support activity, 27.8% of the FY 1996 budget request, would eliminate funding for four important facets of his activity -- the program increase of $4,300,000 in support of the Department's compliance assistance initiative will be eliminated; the program increase to provide $222,000 to upgrade computer technology in the DOL Office of Public Affairs will be eliminated; the total of $1,860,000 included in this budget request to support the Department's workplace substance abuse control program will be eliminated, and one position and associated costs dedicated to support this program will be eliminated; and $770,000 to fund the on-going farmworker surveys will be eliminated.

-- Eliminating funding in this activity for the Department's compliance assistance initiative will delay the Department's ability to make meaningful changes in its enforcement strategy because studies will be deferred on ways in which the Department can reinvent and restructure its enforcement programs to overcome the gap which exists currently and because implementation of alternative enforcement approaches will be deferred. As a result of this reduction, no funds can be provided for customer surveys which will be used to determine the most effective method of communicating with DOL 'enforcement' clients on an on-going basis; no funds will be provided to evaluate existing regulations, concentrating on how they have affected businesses and workers, and on how DOL's current enforcement strategies are working; no funds will be provided to implement and possibly expand the Department's alternative dispute resolution (ADR) program; and no funds will be provided to establish uniform protocols and standards for regulatory information to be stored and transmitted in electronic form.

-- Eliminating funding in this activity to upgrade computer technology in the DOL Office of Public Affairs will severely hamper the efforts of this office to perform effectively. The introduction of personal computers and local area network (LAN) software has revolutionized the operations of public affairs activities. LAN connections can give staff members access to the latest software, to virus protection and to technical maintenance and support. LAN access enables the Department's public affairs staff to distribute press releases via fax boards, cutting delivery time from hours or even days down to minutes. Desktop publishing capabilities have enabled the Department to produce quality graphics for use in a wide range of public affairs and briefing documents. All of these capabilities will be lost if this office is not able to upgrade its existing ADP equipment to maintain access to the Department's local area network.

-- Eliminating funding for the Department's workplace substance abuse control program would mean that the Department would have no presence in

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addressing one of the most significant workplace problems that has a clear and significant impact on a wide range of DOL programs. The cost of illegal drug and alcohol abuse in the workplace is estimated at approximately $166,000,000,000 annually. This compares to the estimated costs of all occupational deaths and injuries at $112,000,000,000 annually.

There is strong evidence that this problem of workplace substance abuse can effectively be addressed through the establishment of comprehensive workplace substance abuse control programs. Nearly all large companies have instituted such programs. Medium and smaller establishments, however, often have not instituted such programs. The following key reasons are cited by companies for not instituting such programs: (1) the failure to recognize that such problems exist in their workplace; (2) the lack of formation on how workplace substance abuse control programs can be instituted; and (3) the perceived high cost of developing such programs. In one study by the State of Ohio, the impact of identifying and treating employees with substance abuse problems resulted in a 97% decrease in on-the-job injuries, a 95% decrease in incomplete work, a 93% decrease in mistakes in work, a 91% decrease in absenteeism, and an 88% decrease in problems with supervisors.

The Department has been funding a modest initiative of approximately $2,000,000 annually to address workplace substance abuse. A careful design was developed that would effectively reach the approximately 6,000,000 small- and medium-sized business establishments and provide them with information and tools needed to address this problem in their workplace. The core of the program consists of the following three parts: (1) the Substance Abuse Information Database (SAID) - a user-friendly electronic database providing turn-key information on the problem and how to establish a program tailored to the individual workplace; (2) the "Working Partners" initiative launched by the Secretary in February 1994 where the Department works through trade organizations to distribute DOL substance abuse information to their members and urge them to institute programs; and (3) establishing a "Substance Abuse Institute" through a grant to the George Meany Center to develop materials, provide technical assistance and promote ways to address the problem of substance abuse among union members and their families.

Currently, the Substance Abuse Database (SAID) is completely operational and over 20,000 copies have been shipped. The "Working Partners" initiative, with roughly one year of operation, has established working relationships with 257 trade associations with over 7,000,000 members. These members have the potential of reaching over 100,000,000 U.S. workers. The George Meany Substance Abuse Institute has begun its work, and will be working with 82 unions with a membership of approximately 13,300,000 workers.

This program is extremely highly leveraged to accomplish its broad goal of addressing workplace substance abuse. As outlined above, eliminating funding for this program would mean that the Department would have no presence in addressing one of the most significant workplace problems confronting our nation.

Eliminating funding for the on-going farmworker surveys in FY 1996 will eliminate the only reliable source of data on the national demographic characteristics of farmworkers. The farmworker population is greatly undercounted in the Census, and the Census Bureau agrees that the National Agricultural Workers Survey (NAWS) is the only accurate source of information on this particular population. The elimination of the NAWS would eliminate the data needed to plan and evaluate $550,000,00 worth of Federal farmworker programs. Further, elimination of the survey would restrict DOL's ability to understand Latin American immigration. The NAWS provides valuable information not only on employment and working conditions encountered by Latin American immigrants, but also on immigration status, migration patterns, English language ability, family composition, health, education levels and utilization of social services.

A reduction of $12,601,400 in the Legal Services activity, 16.6% of the FY 1996 budget request, would result in a decrease of 130 FTE from the requested level of 760 FTE and would result in reduced support for all program areas. In total, approximately 5,600 fewer cases would be concluded, and the pending workload would increase by approximately 14% from approximately 39,000 cases to approximately 45,000 cases. All program increases requested for the Office of the Solicitor for FY 1996 would be eliminated. At this level, only 50 out of 475 front-line staff could be connected to the local area network (LAN) for the Office of the Solicitor, a decrease of 90% from the planned level. Since the SOL workload involves legal actions undertaken in accordance with statutorily mandated requirements, a cut of this magnitude would mean that SOL would be unable to meet its statutory requirements (the precise impact would be delayed until SOL reviewed the impact of these reductions on its client agencies). Under these reductions, because necessary litigation costs (including travel costs, the costs of depositions and the purchase of transcripts) would be underfunded, SOL would have to dismiss meritorious cases because of a lack of funds to prosecute them. The program enhancements unfunded at this level include the following:

(1) $1,000,000 for installation of the SOL local area network, which would preclude SOL from taking maximum advantage of increased ADP capabilities now available to private sector legal staff;

(2) $1,008,000 and 16 FTE for the increased immigration workload, which would eliminate SOL's ability to provide enhanced enforcement in this area through the filing of law suits and judgements which would have promoted voluntary compliance and reduced the economic incentive for the employment of illegal workers;

(3) $600,000 for training, which would totally eliminate all funds for training of SOL staff to enable them to keep abreast of the most recent developments and techniques in the rapidly changing areas of case law which are the responsibilities of the Department; and

(4) $1,064,000 and 15 FTE to support the increased litigation workload in the areas of occupational safety and health and mine safety and health - additional backlogs of approximately 850 cases will develop in these areas, including backlogs involving the new mine health air quality standards.

A reduction of $1,905,200, 14.7% of the FY 1996 budget request, in the International Labor Affairs activity will essentially eliminate funding for the grant to the International Labor Organization's (ILO) International Program on the Elimination of Child Labor (IPEC). No on-going support would be provided for the full range of programs designed to eliminate child labor abuses throughout the world, including bonded labor and hazardous forms of child labor. No funds would be provided for thematic studies of practices in specific countries which have agreed in principal to work with the ILO to end child labor. This cut would severely restrict the Department's leverage in working with the ILO to develop initiatives to combat child labor and provide for the health, safety, well-being and education of child workers.

A reduction of $1,975,100 in the Administration and Management activity, 12.7% of the FY 1996 budget request, would result in a loss of funding for 17 FTE, which would have the following impact -- backlogs would increase in personnel security actions; merit staffing reviews of servicing personnel offices would be eliminated; response times for grievances and unfair labor practice charges in the Department would increase; the average time required to provide corrective service to disrupted local area networks (LANs) would increase by approximately 400% - from roughly four hours presently to two days in the national office, and from one day presently in the DOL regional offices to four days; Departmental coordination of the human resource planning process would be eliminated; the ability to develop new personnel systems and to assist in the implementation of new personnel systems within the Department would be decreased; and the preparation of the annual human resource planning report summarizing key human resource indicators would be eliminated.

A reduction of $4,667,400 in the Adjudication activity would mean that the financing change proposed to shift funds from the Black Lung Disability Trust Fund to eliminate the backlog of Longshore cases in the Benefits Review Board would be disapproved and that backlogs will not be eliminated in the Black Lung program at the Benefits Review Board (BRB). Under funding the financing change will mean that BRB dispositions in the Longshore program will be cut by 931 cases, with the following impact - with this cut, the backlog in this program would increase to 1,802 pending cases, equivalent to a 34-month case processing timeframe - backlogs of this magnitude would approach unacceptable levels. Funding this financing change wold mean that only 871 Longshore cases would be pending at the end of FY 1996, and that the backlog in this area would be eliminated. Further, this reduction would result in a reduction of approximately 200 Black Lung dispositions at the Benefits Review Board. The pending caseload in this area would increase from the optimal level of approximately 450 cases to approximately 650 cases, equivalent to six-month case processing timeframe.

A reduction of $825,500 in the President's Committee on Employment of People with Disabilities (PCEPD) would reduce funding for the Job Accommodation Network (JAN) by 50% of its current level (rolling back the funding level to that provided in FY 1990) and would mean that the proposal to establish a "Business Leadership Network" to support implementation of the Americans with Disabilities (ADA) Act would be unfunded.

-- The reduction in JAN would occur at a time when the Network is experiencing a dramatic increase in calls (an increase of over 18% in calls from the last fiscal year). The resulting consequences of this reduction would mean that the Network could only handle approximately 30,000 of the 60,000 inquires which it receives every month. A sampling of 200 cases last quarter revealed that each actual accommodation case handled by JAN realized a savings of $87,450 per caller (this represents the amount identified by those counseled by this service). The resulting impact of such a diminution in service to employers as well as to workers with disabilities approaches millions of dollars annually. The JAN program puts people with disabilities back to work by delivering timely information on how to adapt existing workplaces to accommodate workers with disabilities.

-- Eliminating support for "Business Leadership Network" would mean that assistance in compliance with ADA would not be extended to businesses not previously covered by ADA, and employer-to-employer communication would be restricted. This approach has repeatedly proven to be a valuable technique to achieve better understanding of the ADA, people with disabilities and the role of business in ADA implementation.

A reduction of $1,439,000 in Women's Bureau, 16% of the FY 1996 budget request, will have a three-pronged impact -- (1) $400,000 to develop informational materials and training programs to business owners and their employees will be eliminated; (2) approximately $500,000 provided for the support of the Commission on Leave will be eliminated; and (3) funding for "Women Work! The National Network for Women's Employment" (formerly the National Displaced Homemakers Network) would be eliminated.

-- Eliminating the total of $400,000 will curtail support for small business owners eager to comply with Departmental compliance requirements. These funds would have been used to educate both employers and employees about the full range of compliance issues involving Departmental programs.

-- Cutting funding for the Commission on Leave by approximately $500,000 in FY 1996 will essentially terminate all work performed by staff assigned to the Commission soon after the beginning of FY 1996.

-- Eliminating funding for "Women Work! The National Network for Women's Employment" will eliminate the training and technical assistance services which "Women Work!" provides, making it possible for thousands of low income women to participate and succeed in vocational training by reducing barriers and providing these women with specialized outreach, support and counseling that this population desperately needs to move towards economic self-sufficiency. The role of the Women's Bureau is to promote the welfare of working women and to improve their wage-earning opportunities. Displaced homemakers nationwide look to the Bureau to help them achieve this goal. Without the strong Federal presence of the Women's Bureau, long-term economic self-sufficiency, especially for displaced homemakers, would remain out of reach. Existing training programs recognize that multiple barriers make these women expensive to serve and therefore, provide minimal services to this population. The "Women Work!" grant provides direct services in this area. The goals of "Women Work!" are to prevent women from turning to welfare, and/or to move them off of welfare by providing the preparatory and vocational services needed to gain employment.

A reduction of $625,000 in the Civil Rights activity, 12.4% of the budget request for FY 1996, will translate into the loss of six (6) FTE. The impact of this reduction will be to reduce the number of Title VI compliance reviews by approximately 75%, from 22 to eight (8), to reduce the number of Title VI complaints closed by roughly 20%, from 1,600 to 1,300; and to reduce the number of Title VII complaints closed by 25%, from 160 in FY 1996 to approximately 120.

A reduction of $845,000 in the activity for the Office of the Chief Financial Officer would result in the following impact: (1) contract funds for the for the preparation of DOL financial statements would be reduced by $250,000, which would mean that the Department would not be able to compile quality financial statements in accordance with OMB time schedules; (2) the ability to respond to OMB and Congressional inquiries in the budget area would be diminished; (3) financial management activities would be compromised because the CFO would not have the staff necessary to work with program agencies to produce required financial data, to integrate Departmental accounting data with program performance data, to improve ledger control within the Department and to oversee the integrity of financial data; (4) the Office of the Chief Financial Officer would not have the ability to respond to audit findings from the General Accounting Office and the Office of Inspector General, and to implement recommendations; (5) the Office of the Chief Financial Officer would not have the ability to engage in developing program performance measures; develop full cost accounting principles and procedures, especially those addressing the distribution of overhead and administrative costs; link performance measures to full costs at the program level; develop approaches and accounting policies and procedures that facilitate quality assurance and the reconciliation of agency and departmental controls (which have differing levels of specificity and maturity); and improve implementation of internal controls, system security measures and quality assurance of financial transactions at the operating level, especially in areas identified as weak by OIG audit.

A reduction of $600,000 for the National Occupational Information Coordinating Committee would mean that NOICC would scale back career development training efforts that the Congress had requested be funded. While NOICC would still operate a significant career development program, training would only be provided to approximately half the number of State/local personnel intended - this training would be provided to one-stop career centers, school-to-work transition centers, and to counselors, educators and others in schools and other settings.

VETERANS' EMPLOYMENT AND TRAINING SERVICE

Answer: Summarized below is a table outlining the impact in FY 1996 of cutting funding 10% below the appropriated level for FY 1995.

Budget Activity	Requested Level	Reduction	Revised Level
DVOP....................	$83,643,000	-$8,402,000	$75,241,000
LVER....................	$77,632,000	-$7,798,000	$69,834,000
Administration..........	$23,017,000	-$4,020,000	$18,997,000
NVTI....................	$2,822,000	-$208,000	$2,614,000
Total - ASVET...........	$187,114,000	-$20,428,000	$166,686,000
JTPA IV-C...............	$8,880,000	-$888,000	$7,992,000
HVRP....................	$5,011,000	-$501,000	$4,510,000

For the Disabled Veterans Outreach Program (DVOP), a 10 percent cut from the $83.601 million FY 1995 appropriations level would result in 96,000 fewer veterans served and 18,500 fewer veteran registrants getting jobs.

For the Local Veterans Employment Representative program (LVER), a 10 percent cut from the FY 1995 appropriations level of $77.593 million would result in 120,000 fewer veterans served, and 17,000 fewer veteran registrants getting jobs than at the FY 1996 planned service level.

For the Job Training Partnership Act Title IV, Part C (JTPA IV-C), a 10 percent reduction from the FY 1995 appropriation level of $8.88 million would result in 261 fewer veterans being placed into jobs and 523 fewer hard to serve veterans being trained.

For the Homeless Veterans Reintegration Projects, a 10 percent reduction from the $5.011 million appropriation level would result in 835 fewer homeless veterans being served and 418 fewer homeless veterans being placed into jobs.

For the Administration activity, a 10 percent reduction from our FY 1995 appropriations level would result in the cancellation of the DOL Transition Assistance Program. This reduction would prevent both the printing of TAP workbooks for participants and their shipment to TAP sites. Also, this reduction would preclude VETS from contracting for TAP facilitators to support DVOP and LVER staff efforts. Also, the reduction in the number of DVOP and LVER staff funded would obviate the feasibility of using DVOP/LVER staff to handle TAP workshops.

Similarly, for Veterans Reemployment Rights, the reduction in the Administration activity will increase processing times due to reduced funding for travel. This would require delaying on-site investigations or mediation meetings until multiple tasks could be accomplished in one trip. Also, VETS expects some reduction in the number of claims filed because veterans may not get proper information about their reemployment rights.

DVOP and LVER staff are linked to TAP, SMOCTA, HVRP and JTPA programs, and get veterans referred or accept referrals from other programs to ensure veterans get adequate assistance. There would also be additional reductions in overall services to veterans by the government, because these linkages between VETS programs and programs in other agencies would be weakened.

OFFICE OF INSPECTOR GENERAL

Answer: A 10 percent reduction for the OIG would equate to $5,224,600. The impact of this reduction for each of the OIG programs is as follows:

Office of Audit: To achieve this reduction, furloughs or reductions-in-force would be necessary. Such a reduction could not be met through attrition alone. The major impacts would be in the following accounts: personnel compensation and related expenses would be reduced by $1,799,900 which would result in a 22 or 23 FTE reduction; travel funding would be reduced by $189,000; and, audit contracts with CPA firms would be reduced by $440,000. Such a reduction would have a significant adverse affect on our ability to fully execute our audit responsibilities under both the Inspector General and the Chief Financial Officer Acts.

For example, OIG would not be able to provide comprehensive, effective audit coverage for one or more of the following: 1) Financial management/program performance measures/program outcomes in the department's Agencies and programs; 2) Job Corps initiatives such as the Mathematica, Inc. policy research contract and demand occupations; 3) other employment and training system activities such as Job Training Partnership Act Title II-A (Barriers to Basic Education), alien labor certification and attestation processes, and unemployment insurance benefit payment controls and internal security; and/or, 4) the myriad of DOL grants and contracts and management thereof.

Office of Investigations: In Program Fraud, a 10 percent reduction below the 1995 level would equate to $1,200,400 below the proposed FY 1996 level. This reduction would require a corresponding reduction of 15 FTE. Currently, the FY 1995 level totals 99 FTE, and the proposed FY 1996 FTE level totals 97. This 10 percent reduction would reduce the FTE to 82. This reduction would drastically impede Program Fraud's ability to conduct its mission and severely undermine its ability to handle significant investigations in the employee integrity, JTPA, and health care area, especially in situations where significant travel is required. Investigations requiring significant manpower and travel resources would need to be put on hold. Cases involving danger to life and safety, as in the MSHA area, where significant employee corruption has been found, would be Program Fraud's top priority cases. All other cases would be placed in a holding status, until sufficient resources are available.

Administratively, the 15 FTE reduction would require Program Fraud management staff to seriously consider closing smaller offices as positions are vacated. With limited resources, it would not be feasible to relocate individuals from small offices to larger offices because of the high costs of PCS moves. This places Program Fraud management staff in a catch-22 situation. Management will need to place the limited resources where the need is greatest. However, unless positions are vacated in smaller offices, there is not sufficient resources to close smaller offices and move the staff to larger offices. In FY 1996, if positions are not vacated, the possibility of imposing furloughs and/or reduction-in-force procedures would need to be considered.

For Labor Racketeering, a 10 percent reduction below the FY 1995 level would equate to $2,344,700 below the proposed FY 1996 level. This reduction would require a corresponding reduction of 25 FTE. Currently, the FY 1995 level totals 115 FTE, and the proposed FY 1996 totals 113. This additional 10 percent reduction below the FY 1995 level would reduce the FTE to 88. This reduction would severely impede Labor Racketeering's ability to conduct its mission and severely undermine its ability to handle not only the significant investigations in the employee benefit, labor management relations, and internal union areas, but also to forgo conducting large-scale industry probes, which uncover the core of the criminal conspiracy. Specific health care related initiatives, high priority initiatives undertaken and coordination with Department of Justice Organized Crime and Racketeering Section, as well as specific investigations into emerging nontraditional organized crime groups would be severely impeded, and may, due to limited resources, be placed in a holding status.

Similar to Program Fraud, the 25 FTE reduction would require Labor Racketeering management staff to seriously consider closing smaller offices as positions are vacated. In FY 1996, if positions are not vacated, the strong possibility of imposing furloughs or reductions-in-force would need to be seriously considered.

Executive Direction and Management: A 10 percent reduction of $736,900 below the existing FY 1995 funding level coupled with the increased cost of pay raises and inflation would equate to approximately a 12 to 14 percent reduction. In order to operate within this resource level it would be necessary to conduct a furlough since all employees are full-time permanent and could not easily be removed from the rolls without conducting a reduction-in-force. The turnover rate within this program office is minimal therefore, savings from attrition is not likely and a reduction-in-force is our last resort to acquire savings.

However, the cost savings would then have to come from a reduction in our ADP program support. The immediate impact of any reduction to the ADP budget is the curtailment of needed hardware overhaul, as well as network operating system and system support software upgrades. Without adequate funding, the current nation-wide OIG network, which is run by several generations old software and hardware, will be faced with possible shutdown, with a return to a stand-alone PC environment. This could continue for a limited and relatively short-term period, based on the life-span of the current PCs. Ultimately, without routine maintenance and overhaul, the hardware will fail, adversely affecting the mission of all organizations.

BUDGET FREEZE AT 1995 LEVEL

Question: What would be the impact of freezing all programs at fiscal 1995 appropriation levels?

EMPLOYMENT AND TRAINING ADMINISTRATION

Answer: Funding training and employment programs in 1996 at the 1995 appropriated levels would have the following impacts (only major programs discussed):

TITLE II-A ADULT TRAINING GRANTS: The 1996 request of $1.055 billion is the same as the 1995 appropriated level. Therefore, maintaining funding at the 1995 appropriated level would have no effect on the program. Approximately 457,600 would be served under this program.

TITLE II-B SUMMER YOUTH: Funding this program in 1996 at the 1995 level of $871.5 million is $87 million less than the 1996 request of $958.5 million. This would result in approximately 49,300 fewer disadvantaged youth being able to work during the summer (from 615,000 to 565,700).

TITLE II-C YOUTH TRAINING GRANTS: Funding this program in 1996 at the 1995 funding level of $598.7 million is an increase of $310 million over the 1996 request of $289 million. It is assumed that the program will not be funded at the 19995 level and would be maintained at the 1996 request level.

TITLE III DISLOCATED WORKER ASSISTANCE: Funding this program in 1996 at the 1995 appropriation level of $1.296 billion is $100 million below the 1996 request of $1.396 billion. This would result in approximately 52,500 fewer workers participating in program than projected under the President's 1996 request.

NATIVE AMERICANS: Funding this program in 1996 at the 1995 appropriation level of $64 million is $2.2 million above the 1996 request of $61.9 million. This would result in approximately 1,000 more participants receiving services under this program than projected under the President's 1996 request.

MIGRANTS AND SEASONAL FARMWORKERS: Funding this program in 1996 at the 1995 appropriation level of $85.7 million is $7.4 million above the 1996 request of $78.3 million. This would result in 7,000 more participants receiving services under this program than projected under the President's 1996 request.

OLDER AMERICANS: The 1996 request of $410 million is the same as the 1995 appropriated level. Therefore, maintaining funding at the 1995 appropriated level would have no effect on the program. In 1996, 94,600 people would be served under this program.

JOB CORPS: Funding Job Corps in 1996 at the 1995 appropriated level of $1.099 billion is $129 million below the 1996 request of $1.228 billion. The impact would be as follows:

- PY 1996 funding frozen at PY 1995 Level ($1,099,460,000).
- Work proceeds at 8 "5050" Centers initiated under 1993 and 1994 Appropriations.
    - 4 of these centers are activated in PY 1996
    - Construction at the 4 remaining sites proceeds in PY 1996 with activation scheduled for PY 1997.
- It is assumed that the 4 new centers authorized in the 1995 Appropriation are cancelled.
- 1996 funding reduction below current request is $128,254,000. Absorbed as follows:

    - $46,861,000 in operating funds for existing centers, necessitating the closing of 4 to 6 existing Job Corps Centers having a combined capacity of 2,082 training slots.

    - $30,000,000 in CRA-"Backlog Reduction" funds for existing centers.

    - $3,344,000 in CRA-"Keep Pace" funds for existing centers.

    - $31,250,000 in CRA funds that had been requested to proceed with the 4 new centers that had been authorized for initiation under the 1995 Appropriation.

    - $16,799,000 in CRA funds that had been requested to start 4 new centers in 1996.

SCHOOL-TO-WORK is a community-driven initiative to provide American youth with the knowledge and skills they need to make an effective transition from school to a first job in a high-skill, high-wage career. It offers a learning and earning strategy that joins world-class academics with business-defined skills by integrating classroom content with on-the-job experience.

Under the School-to-Work legislation, the federal government provides seed money to States and local partnerships to develop and implement statewide school-to-work systems. These venture capital funds, competitively awarded in annual "waves," leverage other resources (State, local, federal, and private) to fully implement and maintain the system. By June 30, 1995, $90 million in venture capital will have been invested in State and local School-to-Work systems building. Activities are underway in every State (and the District of Columbia and Puerto Rico) to develop comprehensive systems.

States and many local communities have launched education reforms under the School-to-Work framework, and they have done so with in partnership the private sector, schools, and community organizations. These reforms build on what works and create coherent systems to prepare young people for careers and further learning. Bipartisan agreement about the importance of School-to-Work concepts is evident from their inclusion in key proposals to consolidate and to improve career preparation services for America's youth.

The completion of multi-year venture capital gains is key to allowing each State to put in place a collaborative process to develop its School-to-Work system and fully benefit from lessons learned both within the State and from other States. If these grants are abruptly terminated, the national investment in the development of these systems will be severely jeopardized. Freezing FY 1996 funds at FY 1995 levels of $250 million would mean:

- Awarding four less State implementation grants -- down from an estimated 20 to 16.
- Awarding 16 fewer local partnership and urban and rural opportunities grants
- Cancelling State or local competitions in 1996 and using all remaining funds to continue progress with current investments. (Competitions may resume in 1997.)
- Possibly extending the initiative two years with the last States beginning School-to-Work implementation in 1999 with funding levels similar to the first wave of States.
- Withdrawing federal "developmental" funds to those States that are committed to implementing School-to-Work systems but that need more time to implement.
- Run no new State or local competitions. This includes planned competitions for State Implementation grants, Local Partnership Grants, Urban/Rural Opportunities Grants in high poverty areas, Indian and Territorial grants. As a result, no new States or Local Partnerships would be added to the other States and communities that have begun program implementation.
- Reduce continuation awards to the eight FY 1994 implementation states, the estimated 20 FY 1995 states and the estimated 41 Local Partnership grants by almost twenty percent from levels previously announced.
- Terminate Federal support of development grants provided to the estimated 24 other states not yet awarded implementation grants. This will discontinue Federal support for STW in these States.
- National Activities would be reduced from $30 million to $18.75 million. Thus, activities to support State and local efforts, including technical assistance and information exchange will be curtailed.

UNEMPLOYMENT INSURANCE PROGRAM. The UI program is priced each year based on projected workload requirements and annual inflation to finance State operations. The projected FY 1996 funding requirements is $2.54 billion, or $163.7 million above the FY 1995 appropriated level. Without maintaining the program at its funding requirements level, the following could occur:

- Approximately 3,000 of the required staff could not be funded. (46,900 staff required)

- A loss of program integrity from overpayment of benefits and under-collection of taxes. The benefit overpayment rate in States would increase from 8.8 percent to 11 percent, causing $2 billion to be lost to the trust fund. Additionally, the undercollection of UI taxes is estimated at over $0.1 billion which would also be lost revenue to the trust fund.

- Service to claimants would decline due to delays in processing benefits, causing an increase in the benefit payment backlog, which is currently less than 14 days. This risks violating the "payment when due" provision of the Social Security Act.

- About 100 local offices may be closed (currently about 1,800); the reduced number of local offices would adversely affect some claimants who would have to travel longer distances to file claims.
- Delays in nonmonetary determinations and appeals activities would increase - resulting in about 60 percent (compared to the current 70 percent) of the appeals being processed within 30 days.
- It is also possible that with revised economic assumptions that UI workloads might increase above the level in the FY 1996 President's budget request.

Given the mandatory nature of paying unemployment insurance benefits, the States would view a reduction of this magnitude as the imposition of an unfunded mandate. The States must still pay the benefits and collect the taxes, but would not have adequate resources to do so. In addition, the States would not be able to make the necessary investments in their programs which might result in cost savings over time. The impact would be to create a system that is inefficient and increasingly unproductive compared to the current technology.

EMPLOYMENT SERVICE: The 1996 Administration's request for the Employment Service Allotment to States is $805,912,000 which is $40,000,000 below the 1995 appropriated level of $845,912,000. The Administration would not propose to increase this program to the 1995 level,

ONE STOP CAREER CENTERS: A level of FY 1996 funding of $120 million -- representing a "hard freeze" of the FY 1995 appropriations level -- would represent a 40 percent reduction of the Department's original FY 1996 request ($200 million).

Through the "forecast scenarios" for potential reductions in FY 1995 and FY 1996, the Department has attempted to bring as many States as possible into One-Stop status (i.e., implementation or planning for implementation). This preservation strategy is congruent with the likely legislative mandate for the States to establish a One-Stop system. This strategy, however, also recognizes that a reasonable equilibrium must remain between our programmatic and LMI investments: the Federal-State employment and training system-building effort is not well-served if there are disproportional reductions in the customer-oriented products, services, and applications associated with America's Labor Market Information System (ALMIS).

With $120 million availability in FY 1996 (following a $104 million level in FY 1995 and a $50 million level in FY 1994):

- The Department would maintain funding support for the 16 States receiving grants in FY 1994 and FY 1995. The original six One-Stop Implementation States, however, would receive somewhat reduced funding in FY 1995 and FY 1996 (the second and third year, respectively, of their grants). Indiana, Ohio, Minnesota and the other seven States selected for funding in FY 1995 would also have their second-year funding level pared. This reduction in funding would impede execution of the original State system design, and may be viewed by the (satisfactorily performing) States as a Federal failure to fully financially deliver on the terms of the grant agreement.
- The opportunity for the Federal partner to fund additional new States is significantly reduced. The Department projects a total of up to 5 new States could be funded at the $120 million level in 1996. This would bring the total of One-Stop Implementation States to 19 - 21, well below the 32 - 34 which could be financed under the original One-Stop investment and trajectory plan.
- Under the original plan, the Department planned to award the last round of implementation grants in 1997. The States receiving the grants during this year would be fully operational by the third year of the grant (i.e., 2000). This plan relied on an investment of $200 million in 1996, and dependable (and proportionately larger) funding streams of $200 million in 1997 - 1999 to accelerate and complete the One-Stop system-building and the development of ALMIS products and services. The hard freeze (with $120 million availability in 1996 and the outyears) would not permit the Department to complete One-Stop funding in all States by the close of the century since the last States will not start receiving resources until 1999 or 2000.
- No "learning laboratory" awards to local jurisdictions would be granted in FY 1996. The original plan had reserved $5 million of funds in FY 1996 to involve the local communities in the building of the One-Stop system from the "bottom-up," utilizing their front-line leadership, innovation and initiative.

o Investments in better data and better information systems through America's Labor Market Information System would be seriously stalled. The $80 million (or 40 percent) reduction in One-Stop funding availability would postpone or scale back Federal-State cooperative efforts during 1996 in:

- Electronic labor exchange -- Job bank, Talent bank, and electronic want ads.
- better production of occupational data at the local level making it harder to know what jobs, careers, and skills are growing.
- development and installation of the common systems for intake, eligibility determination, career exploration, and other standardized applications that improve the delivery of all employment and training services.

PROGRAM ADMINISTRATION: As the Congress proceeds to make decisions regarding FY 1996 program consolidation and spending reductions, it is important to consider ETA program operation needs in their proper context.

NEW LEGISLATION/CONSOLIDATION

o Program consolidation would begin in FY 1997 under the House proposal and in FY 1998 under the Senate proposal. FYs 1996, 1997, and 1998 will be transition years where there will be more work as the old employment and training system grants are closed out and the new consolidated grants are launched. As Chairman Goodling stated, the new program is not revenue sharing. There is a substantial federal role.

o ETA already operates the majority of its programs on a block grant basis, thus there are few efficiencies to be achieved due to further program consolidation and block granting of program funds to States.

o ETA will be heavily involved in restructuring the training and employment system, as it has been over the past few years while undergoing downsizing. Further downsizing would make it very difficult to help States implement the new program consolidations and oversee implementation of key system-building initiatives of the new reemployment system: School-to-Work and One-Stop Career Centers.

o ETA's new mission requires new competencies. ETA staff have an average length of service of 23 years and since we cannot intake significant numbers in new talent, we must retrain our current workforce, which requires training funds as requested in the FY 1996 budget.

STREAMLINING/REINVENTING GOVERNMENT

o The government-wide staff reductions in the President's streamlining plan have already reduced ETA's positions from 1,664 in 1993 to 1,613 by 1996, and to 1,513 by FY 1999, a nine percent reduction. Dollar cuts have reduced ETA's financeable FTE to a level below authorized FTE: Since FY 1981, ETA has gone from 3,126 FTE to its current FTE level of 1,520, a 51 percent reduction. These levels create a potential staffing shortage which threatens program integrity.

o While experiencing such cuts, ETA has implemented new initiatives, such as School-to-Work, One-Stop, Worker Profiling, Skills Standards, Job Corps expansion, increased dislocated worker grants, with no additional resources or staff, and has had to absorb these additional costs.

INTEGRITY

o ETA's Program Operations funds are only a little more than one percent of the total program funds it oversees, a small administrative investment given the size of the program investment.

o For example:

- The Unemployment Insurance Service, which has responsibility for the UI trust fund with total budget authority of $30.6 billion, was reduced from 224 (Washington-based) FTE in 1981 to 104 FTE today. At the same time, UIS staff have assumed new and increased program responsibilities.
- Similarly, Job Corps staffing levels have decreased from 288 (inc. Regions) in 1981 to 172 in 1995, at the same time that the number of Centers has increased, inefficient Centers are being turned around or closed, and OIG has identified the need for increased oversight and program improvements.

- There have been large increases in JTPA Title III funding over the past several years going from $651.3 million in PY 1993 to $1.118 billion in PY 1994 and $1.296 billion in PY 1995 resulting in a large increase in the number of discretionary grants awarded under the Secretary's Reserve Account. There has never been an accompanying increase in FTE for these additional funds; in fact the staff available to provide technical assistance and oversight for these grants has decreased as overall ETA FTE levels have decreased. In addition, in this same time period, over $225 million in defense grants were provided to States and staff will be required to continue providing technical assistance and oversight for these grants for several years.

o There has been and will continue to be significant workload associated with integrity functions. ETA has received an average of 380 audits for resolution in each of the last three years. Many of these audits contain serious management and questioned cost findings. This workload will increase significantly during and after the transition from JTPA as closeout audits and other end-of-program reviews are done. Based on ETA experience with the prior federal job training program (the Comprehensive Employment and Training Act), it took more than three years, and much Regional and National Office staff effort to close the program. Yet the staff levels for these activities have declined even more than the overall decline in ETA staffing.

o The demand by States and SDAs for technical assistance in traditional "integrity" areas such as financial management and procurement is at an all time high and continues to increase.

o ETA has continuing fiduciary and oversight responsibilities with respect to the expenditure of Federal funds which cannot be met with a further reduction in resources.

o Special GAO and OIG reviews will continue and must be resolved.

o During the transition from JTPA, ETA will need to work with States and local governments to develop and put into place integrity and oversight systems for the new program. This will require considerable staff resources.

OFFICE OF THE AMERICAN WORKPLACE

Answer: OWP - In FY 1995, OWP was funded at the FY 1994 comparable level. OWP's FY 1995 appropriation, therefore, does not provide for any mandatory or program increases for this activity. As a result, funding OWP at the FY 1995 level in FY 1996 would be comparable to funding OWP at the FY 1994 level. At this resource level, OWP would cover on-board staff costs by curtailing or cancelling all spending in controllable areas such as travel, printing, direct and indirect employee training, contracts, supplies, subscriptions and equipment. OWP would freeze hiring and promotions, terminate temporary employees, and eliminate all types of employee recognition. Actions of this magnitude would severely hinder OWP's ability to accomplish its mission and performance agreement commitments. OWP would be forced to curtail virtually all of its workplace agenda activities and reduce efforts currently underway to improve the processing time for employee protection certifications filed under 13(c) of the Federal Transit Act.

OLMS - By freezing FY 96 budget authority at the FY 95 level of $23,638,000, planned FY 96 activities based on requested increases (primarily for new technology for OLMS reports processing/public disclosure functions, publication replenishment, and outside staff training) would be eliminated. OLMS would be forced to (1) continue its current PC/manual system of processing union financial reports for public disclosure rather than implement more efficient optical scanning technology, and (2) cease publication of certain pamphlets and other materials designed to help union officials voluntarily comply with the LMRDA.

Please note the this scenario assumes that OLMS would not be required to absorb the $5,600,000 Teamsters election budget "pass-through" to DOJ requested in the FY 96 budget. If such is not the case, OLMS cannot absorb the $5,600,000 without severe reductions in virtually every program activity and very lengthy furloughs for all staff.

Lengthy across-the-board staff furloughs would be extremely disruptive to all OLMS activities and require OLMS to stop or delay many of its criminal and civil enforcement programs, including active embezzlement investigations and compliance audits. Planned compliance assistance activities would also be canceled, public disclosure responsibilities negatively affected, and program-related reinvention projects delayed. Only the most critical, statutorily required enforcement work would continue, such as election investigations, court-ordered supervised elections (such as the massive Carpenters case now in progress), and court appearances for criminal prosecutions.

PENSION AND WELFARE BENEFITS ADMINISTRATION

Answer: Over the years, the Pension and Welfare Benefits Administration (PWBA) has witnessed phenomenal growth in the value of plan assets, a proliferation of different types of pension and welfare arrangements as well as of investment vehicles, including the advent of derivatives. PWBA's responsibilities include regulation and enforcement of approximately 700,000 private sector pension plans and 4.5 million private sector welfare benefit plans covering an estimated 200 million participants and controlling more than $3.0 trillion in assets.

In addition to elimination of all proposed funding increases for electronic filing, compliance assistance, customer support initiatives, enforcement automation enhancements, and funds requested to cover the agency's increasing expert witness costs associated with investigations and litigation, an FY 1996 budget freeze at the fiscal year 1995 level would require a reduction of approximately 40 FTE from an already significantly reduced employment ceiling. Since FY 1993, PWBA has lost a total of 42 FTE from what otherwise would have been its FY 1996 employment ceiling level; a very significant cut for an agency this size. The loss of an additional 40 FTE, which would be very likely with a budget freeze at the FY 1995 level, would seriously impair the agency's ability to carry out an effective ERISA compliance, enforcement and regulatory program.

Additionally, PWBA requested a program increase of $3 million to fund the agency's Electronic Filing Initiative -- a recommendation by the National Performance Review -- which involves a revamping of the Form 5500 processing system. This requested funding would be utilized in designing computer software that would enable filers to submit Form 5500 data in electronic format rather than through paper filings. When fully implemented, the proposed electronic filing initiative will improve the quality of filings, shorten the processing time and streamline the process for converting Form 5500 data into electronic format and reduce the Government's costs associated with capturing and processing the data.

Timely and accurate Form 5500 data used for detecting prohibited transactions and other signs of financial irregularities are critical to effective enforcement of ERISA. Without the requested $3 million for the electronic filing initiative, PWBA's ability to protect the pension funds of America's private sector workers will be diminished.

Maintaining an adequate level of resources is critical if PWBA enforcement of ERISA is to remain an effective deterrent to pension and health plan fraud and abuse. The proliferation of novel investment practices and benefit arrangements such as derivatives, MEWA provides a continual challenge. If the public is to continue to support a private system, then we must demonstrate that we can ensure its integrity. Because the proposed freeze would weaken our enforcement presence, one can logically expect an increase in pension and health plan fraud and abusive practices not to mention an undesirable decrease in the level of customer assistance that PWBA is currently able to provide to plan participants.

In sum, a budget freeze could seriously handicap the agency and increase the threat to the retirement security of American workers, retirees and their beneficiaries.

PENSION BENEFIT GUARANTY CORPORATION

Answer: Freezing PBGC's FY 1996 limitation budget at the FY 1995 enacted levels would prevent the full implementation of the Premium Accounting System. This would affect the collection, processing, and accurate accounting of over a billion dollars in annual premium payments. Operating at FY 1995 levels would also delay PBGC's computer systems initiative designed to address problems in the Corporation's financial management program cited by GAO.

EMPLOYMENT STANDARDS ADMINISTRATION

Answer: Freezing ESA's FY 1996 funding at the FY 1995 Enacted Level would amount to a reduction of $28,078 million from the FY 1996 Request Level. The impact on ESA's programs would be as follows:

For the Wage and Hour Division, a freeze at the FY 1995 enacted level would result in a loss of all funding for Wage and Hour's immigration, compliance assistance, enforcement, and streamlining initiatives. A reduction of 32 FTE would be necessary. An FTE level of 1,272, including 808 investigators, would result in a combined reduction of 15,400 compliance actions and $45.6 million in agreements to pay for more than 104,000 employees. Wage and Hour would also have to scale back efforts associated with the reinvention of its information system. This would directly impact on efforts to develop a computer network that connects all levels of the organization, allowing for the flow of information to and from enforcement staff and managers across the program. While one-third or more of Wage and Hour investigators will already have the tools of automation needed to access these networks, Wage and Hour will not be able to provide computers to the remaining front-line staff.

In addition to staffing reductions and reductions in the number of compliance reviews and complaint investigations conducted, training for the Office of Federal Contract Compliance Programs' (OFCCP) compliance officers would be reduced by 71 percent. Reductions of this magnitude would adversely impact on OFCCP's ability to conduct quality compliance reviews and complaint investigations.

If frozen at the FY 1995 funding level, the Office of Workers' Compensation Programs (OWCP) would have to cancel its plans to complete expansion of the Periodic Roll Management (PRM) project to all 12 FECA district offices as well as terminate 42 of the existing PRM Project staff. Cancellation of the planned expansion of the PRM project and a reduction in existing project staff would result in FECA not being able to put the last of approximately 50,000 long-term disability cases under intensive review nationwide or produce additional benefit adjustments, terminations or rehabilitations. This would amount to a loss of approximately $79.5 million in potential FECA compensation benefit savings through FY 2000 and additional millions in outyear savings. In addition, difficulties in being able to shift personnel to compensate for workload-to-staff imbalances as attrition occurs would impact adversely on timeliness, quality, and customer service.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

If frozen at the FY 1995 appropriation, OSHA would be faced with a ten percent reduction from the FY 1996 request. This would have a major impact on the agency's ability to reinvent OSHA and the way it conducts business. Reducing funding for OSHA programs would impede our planned progress in addressing workplace fatalities, injuries and illnesses through better data, better regulations, and better cooperation with employers in meeting the many challenges of workplace safety and health.

Data from a recent study demonstrate that in the three years following an OSHA inspection and fine, injuries at inspected worksites decrease by as much as 22 percent. Reducing OSHA's budget by 10 percent would require the agency to scale back on staff and several innovations designed to enhance our inspection and employer outreach activity. With less inspection and less focused activity, the number of workplace injuries that will occur that could have been avoided will undoubtedly rise.

This level of reduction affects OSHA's efforts to improve compliance and outreach through new technology, improved targeting of inspections and regulatory activity to address the most dangerous hazards and worksites, and utilize training and education grants to advance health and safety in the workplace. These same types of reductions would be required for our state partners operating their own safety and health plans and providing consultation to small businesses. In addition, funds for inflationary increases such as the Federal pay raise would not be provided. This would force the agency to reduce Federal staff via employee furloughs and reductions in force, in addition to normal attrition.

MINE SAFETY AND HEALTH ADMINISTRATION

Answer. Freezing MSHA's program at the fiscal year 1995 appropriation level would result in an $11.5 million reduction and a 87 Full Time Equivalent (FTE) employment reduction in fiscal year 1996. The impact of this reduction would weaken our efforts in eliminating accidents, illnesses, injuries and deaths in the Nation's mines. It would eliminate the $9 million and 52 FTE requested as program increases in our 1996 request, and require an additional cut of 35 FTE.

I believe that these program increases are critical in achieving the purpose of the Mine Act. Certainly, the health program initiatives to reduce the risks of illness from exposure to the array of hazards present at mines are crucial to further advancements in miners' health. Today's complex mining environment has made it increasingly difficult for inspectors to recognize and evaluate a multitude of health hazards resulting from miners' exposure to dust, noise, diesel exhaust, chemicals, ergonomic hazards, and other dangers.

Some of these are ever-present hazards, such as coal mine dust and silica. Others are newly emerging hazards, such as hazardous waste burned at cement kilns on mine property. As the hazards are becoming more complex, information is surfacing which indicates miners may be at even greater risk of lung disease, cancer, and other disorders as a result of their workplace exposures than previously thought.

I also proposed an increase to address the persistent and well documented safety problems at small coal mines and contractor-operated mines. Most mine operators today accept their basic safety and health responsibilities. But a significant minority continue to show less than full commitment to workers' safety and health, and a few still prefer to put their energy into resistance or evasion. This problem is most profound at small coal mines and contractor-operated mines. Coal miners are dying because these operators ignore safety.

The program increase for the replacement of obsolete inspection equipment is essential to an effective health and safety program. MSHA is regarded as the leading authority in mine safety and health. This position of leadership cannot be maintained if our inspectors are using clearly outdated equipment.

Finally, there would be no funding for the current programs I have initiated in the last year to eradicate known hazards by special focused inspections directed to specific problem areas, and there would be significant reductions in other compliance assistance, education and training, and technical support activities. In my first year at the Agency, I established an aggressive program to involve the entire mining community in addressing persistent safety and health problems using such mechanisms as conferences, seminars and other education and training and compliance assistance materials. These important outreach activities which provide compliance assistance would have to be reduced.

BUREAU OF LABOR STATISTICS

Answer: Although the impact of this reduction would not be as severe as the across-the-board reduction cited above, it nonetheless would be a cut of grave proportions, as it eliminates $25.4 million from the requested funding level. The reduction would curtail the CPI revision, eliminate other 1996 initiatives (SIC and SOC revision and new surveys on emerging labor markets), and force reductions in several base programs such as local area unemployment statistics and locality wage surveys.

DEPARTMENTAL MANAGEMENT

Answer: Summarized below is a table outlining the impact of freezing funding in FY 1996 at the FY 1995 appropriated level.

Budget Activity	Request Level	Reduction	Revised Level
Program Direction and Support......	$26,232,000	-$5,198,000	$21,034,000
Legal Services....................	$75,827,000	-$5,576,000	$70,251,000
International Labor Affairs........	$12,950,000	-$678,000	$12,272,000
Administration and Management......	$15,503,000	-$472,000	$15,031,000
Adjudication.......................	$38,295,000	-$931,000	$37,364,000
Employment of People w/ Disabilities	$4,772,000	-$387,000	$4,385,000
Women's Bureau.....................	$8,973,000	-$602,000	$8,371,000
Civil Rights.......................	$5,038,000	-$135,000	$4,903,000
Chief Financial Officer............	$5,120,000	-$370,000	$4,750,000
Total - Departmental Management S&E	$192,710,000	-$14,349,000	$178,361,000

A reduction of $5,198,000 in the Program Direction and Support activity would significantly impact three facets of this activity -- the program increase of $4,300,000 in support of the Department's compliance assistance initiative will be eliminated; the program increase to provide $222,000 to upgrade computer technology in the DOL Office of Public Affairs will be eliminated; and the funding for the Department's workplace substance abuse control program will be reduced by $676,000.

-- Eliminating funding in this activity for the Department's compliance assistance initiative will delay the Department's ability to make meaningful changes in its enforcement strategy because studies will be deferred on ways in which the Department can reinvent and restructure its enforcement programs to overcome the gap which exists currently and because implementation of alternative enforcement approaches will be deferred. As a result of this reduction, no funds would be provided for customer surveys which will be used to determine the most effective method of communicating with DOL 'enforcement' clients on an on-going basis; no funds will be provided to evaluate existing regulations, concentrating on how they have affected businesses and workers, and on how DOL's current enforcement strategies are working; no funds will be provided to implement and possibly expand the Department's alternative dispute resolution (ADR) program; and no funds will be provided to establish uniform protocols and standards for regulatory information to be stored and transmitted in electronic form.

-- Eliminating funding in this activity to upgrade computer technology in the DOL Office of Public Affairs will severely hamper the efforts of this office to perform effectively. The introduction of personal computers and local area network (LAN) software has revolutionized the operations of public affairs activities. LAN connections can give staff members access to the latest software, to virus protection and to technical maintenance and support. LAN access enables the Department's public affairs staff to distribute press releases via fax boards, cutting delivery time from hours or even days down to minutes. Desktop publishing capabilities have enabled the Department to produce quality graphics for use in a wide range of public affairs and briefing documents. All of these capabilities will be lost if this office is not able to upgrade its existing ADP equipment to maintain access to the Department's local area network.

-- Reducing funding by $676,000 in the Department's workplace substance abuse control program would cut funding for this program by approximately one third. Substance abuse is a major problem affecting the workplace; has a direct impact on many DOL programs including its employment and training programs, safety and health programs; and involving workplace violence, AIDS, health care costs and other issues. The cost of illegal drug and alcohol abuse in the workplace is estimated at approximately $166,000,000,000 per year. This compares to the estimated costs of all occupational deaths and injuries at $112,000,000,000 annually.

There is strong evidence that this problem of workplace substance abuse can effectively be addressed through the establishment of comprehensive workplace substance abuse control programs. Nearly all large companies have instituted such programs. Medium and smaller establishments, however, often have not instituted such programs. The following key reasons are cited by companies for not instituting such programs: (1) the failure to recognize that such problems exist in their workplace; (2) the lack of information on how workplace substance abuse control programs can be instituted; and (3) the perceived high cost of developing such programs. In one study by the State of Ohio, the impact of identifying and treating employees with substance abuse problems resulted in a 97% decrease in on-the-job injuries, a 95% decrease in incomplete work, a 93% decrease in mistakes in work, a 91% decrease in absenteeism, and an 88% decrease in problems with supervisors.

The Department has been funding a modest initiative of approximately $2,000,000 annually to address workplace substance abuse. A careful design was developed that would effectively reach the approximately 6,000,000 small- and medium-sized business establishments and provide them with information and tools needed to address this problem in their workplace. The core of the program consists of the following three parts: (1) the Substance Abuse Information Database (SAID) - a user-friendly electronic database providing turn-key information on the problem and how to establish a program tailored to the individual workplace; (2) the "Working Partners" initiative launched by the Secretary in February 1994 where the Department works through trade organizations to distribute DOL substance abuse information to their members and urge them to institute programs; and (3) establishing a "Substance Abuse Institute" through a grant to the George Meany Center to develop materials, provide technical assistance and promote ways to address the problem of substance abuse among union members and their families.

Currently, the Substance Abuse Database (SAID) is completely operational and over 20,000 copies have been shipped. The "Working Partners" initiative, with roughly one year of operation, has established working relationships with 257 trade associations with over 7,000,000 members. These members have the potential of reaching over 100,000,000 U.S. workers. The George Meany Substance Abuse Institute has begun its work, and will be working with 82 unions with a membership of approximately 13,300,000 workers.

This program is extremely highly leveraged to accomplish its broad goal of addressing workplace substance abuse. Reducing funding by one third would effectively loose a substantial amount of investment already in place. Since all three elements above are interdependent and critical to the program, each would be scaled back. A "user fee" would have to be instituted for the SAID, which could result in decreased access to this material. No new materials would be developed for the SAID, nor for use by trade associations, which would eventually lead to the obsolescence of this database.

A reduction of $5,576,000 in the Legal Services activity would result in a decrease of 72 FTE from the requested level of 760 FTE and would result in reduced support for all program areas. In total, approximately 3,400 fewer cases would be concluded, and the pending workload would increase by approximately 9% from approximately 39,000 cases to approximately 42,500 cases. All program increases requested for the Office of the Solicitor for FY 1996 would be eliminated. At this level, only 350 out of 475 front-line staff could be connected to the local area network (LAN) for the Office of the Solicitor (SOL), a decrease of approximately 25% from the planned level. Since the SOL workload involves legal actions undertaken in accordance with statutorily mandated requirements, a cut of this magnitude would mean that SOL would be unable to meet all of its statutory mandates (the precise impact would be delayed until SOL reviewed the impact of these reductions on its client agencies). Under these reductions, because necessary litigation costs

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would be underfunded, SOL would have to dismiss meritorious cases because of a lack of funds to prosecute them. The program enhancements unfunded at this level include the following:

(1) $1,000,000 for installation of the SOL local area network, which would preclude SOL from taking maximum advantage of increased ADP capabilities now available to private sector legal staff;

(2) $1,008,000 and 16 FTE for the increased immigration workload, which would eliminate SOL's ability to provide enhanced enforcement in this area through the filing of law suits and judgements which would have promoted voluntary compliance and reduced the economic incentive for the employment of illegal workers;

(3) $600,000 for training, which would totally eliminate all funds for training of SOL staff to enable them to keep abreast of the most recent developments and techniques in the rapidly changing areas of case law which are the responsibilities of the Department; and

(4) $1,064,000 and 15 FTE to support the increased litigation workload in the areas of occupational safety and health and mine safety and health - additional backlogs of approximately 850 cases will develop in these areas, including backlogs involving the new mine health air quality standards.

A reduction of $678,000 in the International Labor Affairs activity will decrease the grant to the International Labor Organization's (ILO) International Program on the Elimination of Child Labor (IPEC) by approximately 32%. Absorbing this reduction would make it difficult to continue to support the full range of programs designed to eliminate child labor abuses throughout the world, including bonded labor and hazardous forms of child labor. The decrease would cut by 50% thematic studies of practices in specific countries which have agreed in principal to work with the ILO to end child labor. This reduction would limit the Department's ability to work with the ILO to develop initiatives to combat child labor and provide for the health, safety, well-being and education of child workers.

A reduction of $472,000 in the Administration and Management activity would result in a loss of funding for five (5) FTE, which would have the following impact -- eliminating merit staffing reviews of servicing personnel offices within the Department, and increasing the average time required to provide corrective service to disrupted local area networks (LAN) in the DOL national office and regional offices by 100%.

A reduction of $931,000 in the Adjudication activity would mean a cut of 25% in the financing change proposed to shift funds from the Black Lung Disability Trust Fund to eliminate the backlog of Longshore cases at the Benefits Review Board (BRB). This reduction would mean that dispositions in the BRB Longshore program would be cut by approximately 230 cases, with the following impact -- with the cut, the backlog in this program would increase to approximately 1,100 cases, equivalent to a ten-month case processing timeframe and meaning that approximately 500 Longshore cases would be pending at the Benefits Review Board for more than year at the BRB without disposition. With full funding for the proposed financing change, only 871 Longshore cases would be pending at the end of FY 1996, and the backlog of cases in this area would be essentially eliminated at the end of FY 1996.

A reduction of $387,000 in the President's Committee on Employment of People with Disabilities (PCEPD) would mean that the proposal to establish a "Business Leadership Network" to support implementation of the Americans with Disabilities Act (ADA) would be unfunded, and that support for the "Disability Leadership Network" would be somewhat reduced. Eliminating support for the "Business Leadership Network" would mean that assistance in compliance with ADA would not be extended to businesses not previously covered by ADA, and employer-to-employer communication would be restricted. This approach has repeatedly proven to be a valuable technique to achieve better understanding of the ADA, people with disabilities and the role of business in ADA implementation.

A reduction of $602,000 in the Women's Bureau will result in a two-pronged cut -- (1) $400,000 to develop informational materials and training programs to business owners and their employees will be eliminated; and (2) approximately $200,000 provided for the support of the Commission on Leave will be eliminated. Eliminating the total of $400,000 will curtail support for small business owners eager to comply with Departmental compliance requirements. These funds would have been used to educate both employers and employees about the full range of compliance issues involving Departmental programs. Funds for the Commission on Leave will be reduced by approximately one third in FY 1996, which will limit the amount of follow-up work that can be done by the Commission after its report is issued in November 1995.

A reduction of $135,000 in the Civil Rights activity will translate into the loss of two (2) FTE. The impact of this reduction will be to reduce the number of Title VI compliance reviews by approximately one third, from 22 to 15, and to reduce the number of Title VI complaints closed by approximately 6%, from 1,600 to 1,500.

Finally, a reduction of $370,000 in the activity for the Office of the Chief Financial Officer would result in the following impact: (1) contract funds for the preparation of DOL financial statements would be reduced by $250,000, which would mean that the Department would not be able to compile quality financial statements in accordance with OMB time schedules; and (2) financial management activities would be compromised because the CFO would not have the staff necessary to work with program agencies to produce required financial data, to integrate Departmental accounting data with program performance data, nor to improve ledger control within the Department and to oversee the integrity of financial data.

VETERANS' EMPLOYMENT AND TRAINING SERVICE

Answer: Summarized below is a table outlining the impact of freezing funding at the FY 1995 appropriation level.

Budget Activity	Requested Level	Reduction	Revised Level
DVOP....................	$83,643,000	-$42,000	$83,601,000
LVER....................	$77,632,000	-$39,000	$77,593,000
Administration..........	$23,017,000	-$1,909,000	$21,108,000
NVTI....................	$2,822,000	+$82,000	$2,904,000
Total - ASVET...........	$187,114,000	-$1,908,000	$185,206,000
JTPA IV-C...............	$8,880,000	$0	$8,880,000
HVRP....................	$5,011,000	$0	$5,011,000

For the Disabled Veterans Outreach Program (DVOP), maintaining the DVOP funding at the FY 1995 appropriation level of $83.601 million results in one fewer DVOP specialist. As a result, DVOP staff will serve 500 fewer veterans and 100 fewer veteran registrants will get jobs.

For the Local Veterans Employment Representative program (LVER), maintaining the FY 1995 appropriation level of $77.593 million would result in one fewer LVER. This will result in 850 fewer veterans being served, and 100 fewer veteran registrants getting jobs.

For the Job Training Partnership Act Title IV, Part C (JTPA IV-C), there would be no change (there is no increase in funding for this program in the FY 1996 request).

For the Homeless Veterans Reintegration Projects, there would be no change (there is no increase in funding for this program in the FY 1996 request). If the FY 1995 rescission bill is enacted, the 8,400 homeless veterans that VETS is planning to serve, and the 4,200 homeless veterans VETS is planning to place in jobs, would not receive such services and placement assistance.

For the ASVET Administration activity, maintaining funding at the FY 1995 appropriation level of $21.108 million would not provide sufficient funding to continue the TAP facilitator contract. Therefore, 103,000 fewer service members and their spouses will receive training, a reduction of 75,000 from the FY 1996 planned level. At this funding level, it would not be feasible to support a contract for workshop facilitators to handle surges in separation activity or serving those military bases that cannot be cost-effectively served by DVOP or LVER staff.

OFFICE OF INSPECTOR GENERAL

Answer: A funding freeze at FY 1995 appropriation levels would have less impact than a 10 percent across-the-board cut would in FY 1996. However, it should be noted that the OIG would have to absorb all pay raise costs in addition to the increases caused by inflation. The following is a brief impact statement on each of the OIG programs:

Office of Audit: A reduction would result in about $500,000 from our proposed FY 1996 budget. Overall audit coverage of the Employment and Training System would be reduced. For example, a Job Training Partnership Act service delivery area, a Job Corps center and/or a state's internal controls over their unemployment benefit system would not be audited.

Office of Investigations: For Program Fraud, the $9,024,000 FY 1995 level (a $298,000 reduction over the FY 1996 level) would limit Program Fraud's ability to conduct significant investigations requiring extensive travel, manpower, and investigative expenditures such as in the JTPA area and OWCP medical provider fraud cases, areas in which Program Fraud has had significant impact of late. Investigations requiring significant travel and manpower resources would not be opened, and those cases currently in inventory would need to be put on hold until sufficient resources are available.

For Labor Racketeering, the $11,847,000 FY 1995 level (a $1,160,000 reduction over the FY 1996 level) would severely limit Labor Racketeering's ability to conduct significant nationwide investigations requiring extensive travel, manpower, and investigative expenditures. Extensive industry probes would be eliminated due to insufficient funding in travel and investigative expenditures. This reduction would also require Labor Racketeering not to staff positions when vacancies occur in FY 1996.

Specific health care related initiatives, high priority initiatives undertaken and coordination with Department of Justice Organized Crime and Racketeering Section, as well as specific investigations into emerging nontraditional organized crime groups would be severely impeded.

Executive Direction and Management: In order to absorb the costs of routine pay raises, ADP contracts, and other non-discretionary increases, non-pay elements such as ADP would have to be reduced. ADP represents the only discretionary expense which could be tapped to offset freezing programs at the FY 1995 levels.

The current Information Resources Management Strategic Plan calls for a critical upgrade to the network operating system (NOS) to replace the obsolete 3+Open NOS with a currently supported platform. Additionally, it calls for the initiation of our migration to a Windows based environment in order to maintain a viable operating environment. The immediate impact would be a further degradation of our several generations old network operating system as well as our applications operating systems. Additionally, the plan calls for a routine, three year overhaul and upgrade cycle for our hardware so that the large hardware investments, typical of past years will be spread over three years.

Our current network is no longer supported by the manufacturer and is unable to integrate adequately with upgraded versions of current software. The OIG front line auditors and investigators have a mission critical need for the automation tools that are currently being provided, and which will be even more critically needed to audit and investigate into the 21st century. Any reductions in ADP will directly effect their operations, not only in FY 1996, but for many years ahead.

STRIKER REPLACEMENT REGULATIONS

Question. What is the rationale for proceeding administratively to accomplish legislation that has failed to pass Congress?

Answer. This executive order is only one of a line of executive orders that set important national policies dating back to executive orders issued by President Roosevelt and Truman desegregating the armed forces.

This executive order is the latest in a line of presidential actions on labor-management relations issues affecting federal contractors. Under Presidents Reagan and Bush, three executive actions were taken that related directly to labor-management relations policy:

I. "Pre-Hire Agreements": Most recently, President Bush issued Executive Order No. 12818 in late October 1992 prohibiting federal contractors from entering into "pre-hire agreements" (i.e., collective bargaining agreements common to the construction industry and lawful under the National Labor Relations Act that establish labor standards for construction work prior to the hiring of workers) for work on federal construction contracts.

II. Beck Decision: President Bush also issued an executive order in 1992 to implement the Beck decision even though a very closely related legislative proposal was pending before Congress:

* In 1991, a coalition of House Republicans, including the current Speaker Newt Gingrich, the current Republican leader Richard Armey, the current Republican whip Tom Delay, and Representatives Archer, Ballenger, and Livingston introduced the so-called Workers Political Rights Act of 1991. This proposed legislation would have required that employees be notified in writing that they could not be required to join a union.

* This bill was never passed by the Congress. But on April 13, 1992, President Bush issued Executive Order No. 12800 which required all unionized federal contractors to post a notice in their workplaces informing all employees that they could not be required to join a union.

* On the day President Bush issued that executive order, presidential Press Secretary Marlin Fitzwater explained that the administration had hoped that Congress would pass a bill that addressed this concern or that the NLRB would issue a decision preventing unions from using fees collected from dissenting employees for political purposes. "That has not occurred," said Fitzwater. "[W]e thought it most important to go forward with this piece of it, which is all we could do." The current Republican whip, Rep. Tom DeLay, explained even more simply at the time:

"This is an effort by the president to do something through executive order that he cannot get Congress to do."

III. PATCO: In 1981, President Reagan issued a memorandum to the Director of the Office of Personnel Management directing him to impose a life-time prohibition on reemployment of the striking members of the Professional Air Traffic Controllers Organization (PATCO) by the Federal Aviation Administration.

The Committee should also note that this Executive Order would not establish the same policy that would have been enacted had the Workplace Fairness Act passed. The Workplace Fairness Act would have amended the National Labor Relations Act to prohibit all employers from using permanent replacement workers in all circumstances. The Executive Order applies only to federal contractors with contracts worth in excess of $100,000. Further, the Executive Order does not mandate termination for convenience of every contract nor debarment of every contractor.

This executive order is good procurement policy. The use or the threat to use permanent replacement workers destroys any opportunity for cooperative and stable labor-management relations. Since the economical and efficient administration and completion of federal government contracts requires a stable and productive labor-management environment, the federal government has a strong interest in its role as a purchaser of goods and services in prohibiting the use of permanent replacements. This rationale is quite different from those advanced to support the Workplace Fairness Act.

Question. Will you recommend that the President veto a rescission bill that bans the Administration from implementing a striker-replacement executive order?

Answer. The recommendation of a veto would depend on how the rescission bill was written with respect to the provision placing a ban on implementation of a striker-replacement executive order. I would want an opportunity to read and consider the legislation before committing to a veto recommendation.

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RESCISSION IN SUMMER JOBS

The House has voted to eliminate the summer youth jobs program, which currently provides employment for 615,000 disadvantaged youth. Although your budget proposes to maintain this program at current enrollment levels, it is not on the Administration's list of high-priority "investment" programs.

Question. What would be the impact of eliminating the summer youth program?

Answer. The proposed cut means that over the next two years, over 1.2 million poor youth will not have summer jobs nor learning opportunities to better their basic reading and math skills. Many youth in the summer program have never worked before in their lives, and many have parents who are not working or do not have a strong attachment to the labor force. This is how these youth learn how to work and are instilled with the work ethic.

The Summer Youth Program is included as an integral part of the Second Chance component of the President's G.I. Bill for America's Workers.

We cannot ignore disadvantaged youth. The ages of 14 through 21, the age range served by Title II-B, is a critical time when young people should be completing their educations and entering careers. Forty percent of enrollees in the program are 14 or 15 years old, and another forty percent are 16 or 17. For many in this age group, it can be a time of criminal and violent behavior and a time when many single-parent families are started that become long-term welfare dependent. It is penny-wise and pound foolish to eliminate the summer JTPA program.

Eliminating the summer program would have a serious impact on local communities. The rescission of resources for the summer of 1995 would effectively put most communities in a deficit situation. At the local level, many communities have already made financial agreements with schools and community organizations to provide summer jobs and learning services, and these communities will find themselves in serious financial trouble. More importantly, local schools and other community organizations are already taking applications from poor kids who expect to find good jobs through the program and now will have their hopes dashed.

Research shows that the summer program is successful in increasing the total summer job opportunities available to poor minority youth. Public summer jobs do not simply attract kids who would have found other employment. By providing income that will generate spending, often in impoverished neighborhoods, the program helps generate economic growth.

For each thousand kids employed, the program brings between $1 million and $1.4 million to the community.

Question. What type of work experience and training are provided by this program, or are these primarily "make work" jobs, as its critics say?

Answer. Recent evaluations by both DOL's Inspector General and Westat, Inc. indicate that the summer program is run very tightly. The work projects are worthwhile; they are not "make work". Summer youth participants work in a number of occupational areas, such as clerical (25%); building maintenance, custodial and repair positions (15%); recreation, camps and playgrounds (11%); landscaping and conservation

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(9%); and classroom aide positions (9%). They may also work in day care centers, libraries, museums, food service organizations and laboratories. The supervisors are strict with the youth, and if the youth do not fulfill their responsibilities, they are let go. These young people respond to this by working hard. They want summer jobs. Many of these kids depend upon their earnings to buy the clothes and supplies that they need to return to school in the fall.

The program's academic components vary greatly across the nation, including reading, mathematics, writing, vocational exploration, specialized vocational training, pre-employment work maturity instruction, and life skills training. Instructional settings include computer labs at vocational-technical schools and community colleges, university campuses, libraries, JTPA worksites, and individual tutoring arrangements, not just traditional classrooms. Despite the wide variation in academic content and format, a common theme is that the academic programs are designed to provide key aspects that are unlike regular school. This means small classes, more individual attention, and more autonomy on the part of teachers to select curricula and try new methods tailored to students' needs. The average student/teacher ratio in academic programs is about 11 to 1, considerably less than the ratio found in most secondary schools.

SUMMER YOUTH JOBS

You are requesting a 10 percent increase for the Summer Youth Jobs program for the 1997 advance over the 1996 program level, yet your budget documents show this will only maintain the current level of 615,000 participants. (Background: The President's request for the 1997 summer youth advance appropriation is $958,540,000, an increase of $87,000,000 over the 1996 level of $871,540,000. This advance funding is authorized by the Job Training Partnership Act.)

Question. Why do you need an increase of more than three times the rate of inflation in the Summer Youth Jobs program?

Answer. Since the summer of 1993, the Administration has placed a high priority on expanding and enriching the education component of the Summer Youth Employment and Training Program. The requested increase will provide for increased unit costs associated with academic enrichment activities while maintaining the number of participants served at prior year levels.

The President and Secretaries Reich and Riley have stressed the inseparability of work and learning, both on the job and in the classroom. The emphasis on enhanced assessment of youth's needs and the provision of educational assistance was codified into law via the Goals 2000: Educate America Act, which amended JTPA Title II-B. The Administration enthusiastically supported this expanded program requirement. Formal program guidance issued by DOL and follow-up discussion with the employment and training community expanded on this theme.

For the past two summers, formalized training on designing and operating an enriched education component has been provided to States, localities, and program operators. Program models have been developed and disseminated, and specialized technical assistance has also been provided. The scope and quality of educational services and their relevance to work skills have been the major focus of oversight of the summer program by DOL Regional Offices. Our target for the upcoming 1995 program is to assure that two-thirds of the kids who participate receive enriched education services linked to work.

Question. Why do we need to fund the program at all in the fiscal year 1996 appropriation bill, when we could just as well wait until fiscal year 1997 to fund the 1997 summer youth program?

Answer. The effectiveness of the summer program relies on a planning cycle, generally beginning with the issuance of planning allocations in December before the program's start. The planning process is comprised of contracting with teachers who will provide instruction in the academic enrichment component of the program, incorporating in the program the foundation skills recommended by the Secretary's Commission on Achieving Necessary Skills, and developing increased private sector involvement.

JTPA programs are funded on a program year basis, July 1 to June 30. Appropriations effective October 1 of a given fiscal year (FY) may not be Federally obligated until the following July 1 start date of the program year. Since July 1 falls in the middle of the school summer vacation period, the Summer Youth Employment and Training Program has historically been forward funded. That is, funds for a given fiscal year appropriation are obligated during the following fiscal year. For example, FY 1996 funds will be used to fund the FY 1997 (calendar year 1997) summer program.

JOB CORPS EXPANSION

Your budget justification material includes a chart that shows by the year 2000, the Job Corps expansion will cost an additional $316 million annually. Yet an OMB chart projects the Job Corps budget through the year 2000 provides for only an $18 million increase over the current fiscal year 1995 appropriation, which is $111 million less than the amount you are requesting for fiscal 1996.

Question. What sense does it make to open new Job Corps centers if we are not going to have the funds to sustain their operations?

Answer. The outyear table in the President's budget is intended only as an illustrative tool. The table is not intended to reflect or anticipate specific policy decisions concerning individual programs, such as the Job Corps. It simply demonstrates what the future funding levels would be for individual DOL programs under one particular assumption i.e., that the reductions reflected in the overall domestic spending caps would be applied to programs on an across the board basis.

The Administration remains committed to the graduated, long-term expansion of the Job Corps program as outlined in the 1996 request. This expansion continues to make good sense from a dollars and cents perspective. A highly respected evaluation study found that Job Corps participation significantly increased earnings and educational attainment, while reducing welfare dependency and the incidence of serious crime among graduates. The study determined that there was a return to society of $1.46 for every $1.00 spent, including increased economic output of Job Corps students and lower public expenditures from reductions in welfare dependency and involvement in serious criminal activity.

The Job Corps expansion should not be regarded as a generator of increased future expenditures. It must instead be viewed as a sound investment in the Nation's disadvantaged youth that will yield a sure and generous profit to society as a whole.

Question. In view of the fact that the Job Corps program is currently undergoing a major re-evaluation and corrective actions to address problems identified in audit reports by the Inspector General, shouldn't we concentrate on improving existing operations before we further expand Job Corps?

Answer. A number of operational issues have been brought to light in recent months by the Department's Office of Inspector General (OIG). However, all of the problems that have been raised by the Inspector General can be corrected through vigorous management action and, as you will see, we are committed to taking such actions and have already begun to do so. However, as we take steps to improve the quality of the existing program, we also need to move forward with the program expansion. We do not at all see the two initiatives as being mutually exclusive.

OIG testimony at earlier hearings indicated that their audit of Program Year 1990 Job Corps costs and outcomes revealed a number of areas that needed to be reviewed and assessed by the Department. These included:

- Failure of some students to obtain measurable learning or job placement gains.
- Failure to determine the post-program placement status of all Job Corps terminees.
- A low percentage of training-related job placements by graduates and terminees, even though nearly 70% of all students did obtain jobs or go on to further education.
- The fact that certain centers consistently performed below the national average and continued to operate with no significant improvement.

Plans have been completed by the Employment and Training Administration (ETA) and actions have been taken or are underway to deal with each of these deficiencies. Indeed, practical corrective measures on most of the OIG concerns have been underway for many months. These measures included revisions in the Job Corps performance measurement system for PY 1994 as well as issuance of our "zero tolerance" policy against violence at Job Corps centers in June 1994.

We think it is especially important to note that the Department has moved forcefully to address problems at Job Corps centers where poor performance has been especially severe or persistent. In September 1994, after following up on complaints received by parents of students, we suspended new student enrollment at the Oconaluftee (NC) Job Corps center until improvements are made in the center environment. In December 1994, after an in-depth review triggered by disturbing TV reports about the McKinney Job Corps Center in Texas, we took action to terminate the existing contractor and install a new one.

Also in December of 1994, we undertook a series of special onsite reviews to determine how effectively our "zero tolerance" policies were being implemented. The first wave of reviews was completed at 28 centers, including all centers where the potential for violence-related problems was thought to be highest. All remaining centers will be reviewed by no later than the end of March 1995.

This first wave of "zero tolerance" reviews resulted in: 1) formal notification to the current Cleveland (OH) Job Corps center contractor that, based on persistent performance problems and an assessment that the living and learning environment is not safe enough, the contract will be terminated and a new contractor installed; 2) transmittal of a

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letter to the National Park Service citing chronically poor performance at all four of their Job Corps centers, asking them to "show cause" promptly why the interagency agreement for operation of these centers should not be terminated; and 3) temporary suspension of operations at the Joliet (IL) and Cassadaga (NY) Job Corps centers to implement corrective action before the students returned from the winter break.

We have also developed a joint OIG-ETA action plan to methodically address and remedy problems at our poorest performing centers. This plan will be implemented in the early months of 1995 and includes: 1) stronger emphasis on past performance when competitive contracting decisions are made; 2) conducting an in-depth analysis of the poorest performing centers by OIG teams to identify common factors contributing to poor performance; 3) development of a technical assistance guide that will help center contractors and managers make more effective use of data reports to identify and remediate performance problems; 4) provision of special training to key management staff at 10 of the poorest performing centers; 5) intensive onsite technical assistance at 3 of the poorest performing centers; 6) establishment of procedures that will allow for accelerated termination and replacement of poor performing center contractors; and 7) development of a legislative proposal to permit contracting out the management and operation of the 30 federally administered Civilian Conservation Centers to private contractors where the agency has failed to perform adequately.

ETA is also embarking on a set of far-reaching policy and programmatic initiatives that will strengthen Job Corps student outcomes and improve the cost effectiveness of the program. These measures include:

1) Establishing an initial 30-day probationary or trial enrollment period for new enrollees during which a student would be expected to demonstrate a personal commitment to succeeding in Job Corps and the labor market, or leave the program. Corps participants would be expected to sign a written pledge to that effect. Job Corps provides students with an opportunity to change their lives. It is up to each student to take advantage of the opportunity Job Corps provides.

2) Adopting a new requirement that new students be drug-free as a condition for enrollment in Job Corps. This is based on the premise that a student's commitment to succeed at Job Corps is an empty promise unless the student is drug free upon arrival at the Job Corps center.

3) Restricting enrollment of younger students. In our discussions with the OIG, it was agreed that Job Corps should be viewed primarily as an avenue for disadvantaged young adults to move successfully into the labor market. It was further agreed that, with high school age youth (17 year-olds and particularly 16 year-olds), it was more difficult to obtain a realistic commitment for labor market entry upon completion of the program. Therefore, ETA proposes to eliminate enrollment of 16 year-olds altogether and to impose a 15% cap on the enrollment of 17 year-olds.

4) Reallocating existing resources to strengthen job placement and follow-up services. Currently services terminate with a student's initial job placement (which is defined as employment obtained within 6 months after leaving the Job Corps). We plan to conduct follow up in the 13th week after the initial placement and to provide any additional placement services and support needed up to the maximum

period of 6 months. Our ultimate goal is that the entrance into the labor market for Job Corps graduates is permanent.

5) Seeking legislative authority to ease access to social security and unemployment insurance data to improve our ability to evaluate longer term results of program participation. This will aid our ability to measure the Job Corps return on taxpayer investment without relying exclusively on impact evaluations.

WORKER PROFILING

Your budget reflects a $9 million decrease for worker profiling activities by the Unemployment Insurance Service.

Question. Is there a budget request or anticipated discretionary fund set aside anywhere else in the Labor Department's budget for worker profiling or related activities?

Answer. The $9 million in Unemployment Insurance funds requested each year for FYs 1994 and 1995 was the necessary investment in worker profiling and reemployment services systems design and implementation. Now that all States have established such systems, there is no need for this budget item, and there are no requests or anticipated set-asides for further design or implementation.

The Department also allotted $20 million from the JTPA Title III National Reserve Account to State dislocated worker programs for one-time investments to increase the quality and level of re-employment services that would be available for profiled dislocated workers who were served under the Title III program.

Question. Identify the sources of funds and total amount committed for worker profiling and related activities with fiscal year 1995 funding.

Answer. States operate their worker profiling and reemployment services systems using available UI administrative funds, and State and federal programs that provide reemployment services. Aside from the $9 million for implementation of UI worker profiling, no additional funds have been requested or set-aside in the Department's budget for these or related activities.

The Department has worked with the States to ensure that they each have an effective system of reemployment services for dislocated workers, such as those individuals identified through profiling. We expect that States will expend a considerable portion of their regular Wagner-Peyser and JTPA Title III allotments to provide reemployment services so that workers who have been identified through the UI profiling process will be able to find a new job or appropriate retraining as quickly as possible.

MIGRANT AND SEASONAL FARMWORKERS

Your budget proposes a reduction in funding of $7,407,000 for migrant and seasonal farmworker training under Section 402 of the Job Training Partnership Act.

Question. What is the justification for this reduction?

Answer. The FY 1996 reduced request of $78,303,000 is due to budgetary constraints, and is approximately 10% less than the current level.

We believe that this reduction is reasonable because of our strategy of creating nationwide One-Stop Career Centers which will provide services to every applicant accessing those centers, including seasonal farmworkers.

Nonetheless, we do propose that the Section 402 program be continued, and that it not be consolidated within the President's Middle Class Bill of Rights. We propose this because the program aids a very hard-to-serve population due to the migratory nature of the work as well as the very low skill level of such individuals. In addition, organizations which we have funded to serve this population tend to receive funds from a variety of sources and thus create their own specialized "One-Stop Centers" which provide extensive services in one location to migrants and seasonal farmworkers e.g., legal aid, health care, day care, emergency food and housing as well as employment and training activities.

Question. Has there been a reduction in the eligible population served by this program?

Answer. No. In fact, the eligible population has increased by approximately 1,300,000 because of those newly eligible for the Section 402 program as a result of the Immigration Reform Control Act.

FISCAL 1995 RESCISSIONS

The House is recommending rescissions totaling $2.3 billion in Labor Department programs, including the proposed elimination of summer youth jobs, both for this summer as well as the 1996 advance appropriation. These rescissions include a number of programs you are recommending for block grant consolidation in fiscal 1996.

Question. Is it fair to say both the Administration and the House support elimination of a number categorical job training programs, but the House wants to use the savings for other purposes than new job training systems?

Answer. The President's proposal would consolidate 70 different federal programs into four simple workforce development systems for youth and adults. Some legislative proposals being discussed in the House have similar objectives, and contain features that are like the Administration's proposal. However, the rescissions approved by the House would eliminate a significant portion of the funding that would be used to fund either the Administration's proposal or an alternative proposals. It is our hope that these funds will be available to support education and training, since now more than ever, this is the ladder into the middle class and the best insurance that workers have against economic change.

Question. What is the impact of these rescissions?

Answer. The rescissions' impacts by program are:

TITLE II-A ADULT TRAINING GRANTS PROGRAM: The reduction is $33 million to a level of $1.022 billion from $1.055 billion appropriated. This is a 50 percent reduction of the increase from the FY 1994 level of $988 million. It is estimated that 11,400 fewer adults will be able to receive assistance during PY 1995, from 453,500 to 442,100.

TITLE II-B SUMMER YOUTH: The reductions for this program in CY 1995 and CY 1996 is $867 million and $871.5 million, respectively. It is estimated that 615,000 young people would have been served in each year. ETA has already obligated $682.3 million of the CY 1995 funds ($867 million) and it is reasonable to assume that some States have begun spending those funds and more States will spend these funds until final Congressional action. Should a rescission take back these funds, States will have to finance already incurred costs with State funds, and federal funds carried over from last summer.

TITLE II-C YOUTH TRAINING GRANTS PROGRAM: The reduction is $309.7 million to $289 million, the level requested in the Administration's FY 1996 budget request. The Administration's proposal, however, was based on creating a single block grant combining Title II-C, Summer Youth and Youth Fair Chance funds. This single grant would have provided much more flexibility to States and localities in serving disadvantaged youth. We believe that Title II-C has not been as effective as wished because the services offered have not been comprehensive enough to turn around the lives of disadvantaged youth. The Department of Labor is working towards making Title II-C programs much more comprehensive and effective. We are working towards basing the program on models that have proven to be cost-effective--job training linked much more strongly to the private sector for out-of-school youth and longer-term programs aimed at keeping in-school youth from dropping out. We would like to see the program improved, not gutted. This immediate reduction, combined with the elimination of funding for the Summer Youth program and Youth Fair Chance, is simply an abdication of Federal responsibility for helping disadvantaged youth to move up in our society. The reduction to Youth Training Grants would result in 132,700 fewer disadvantaged young people being served in PY 1995, from 318,000 to 185,300.

DISLOCATED WORKER ASSISTANCE: The reduction of $99.3 million to this program reduces the funding increase from 1994 by about 50 percent to $1.197 billion. This reduction means that about 52,000 fewer dislocated workers will be helped in 1995. This reduction comes at the same time that demand for services in this program continues to increase due to defense downsizing and impact of Clean Air Act implementation and trade policies.

JOB CORPS: The reduction to Job Corps is $10 million and represents the elimination of funding to initiate four new centers that were planned for PY 1995. Funding is maintained for operating costs of existing Job Corps centers, continuation of funding of new Job Corps centers approved in prior years' appropriations, and for construction and repair funds needed for existing Job Corps centers. The four new centers would have created 1,600 new slots.

NATIVE AMERICANS: The reduction to the Native Americans program is $6.4 million and will result in about 2,200 fewer Native Americans being served by this program.

MIGRANT AND SEASONAL FARMWORKERS: The reduction to this program is $8.6 million and results in about 5,000 fewer people receiving assistance than would have been served.

TECHNICAL ASSISTANCE/CAPACITY BUILDING: The reduction in funding for this activity is $6 million. These funds would assist the States and service delivery providers provide higher quality services to their customers - disadvantaged people seeking new and better skills, and to dislocated workers seeking to transition from obsolete jobs and skills to high-wage, high skill jobs. These funds would have also been used to help establish an electronic information network providing good

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information on what training assistance techniques work for whom and other data to the employment and training community.

RESEARCH AND EVALUATION: The reduction is $3 million or about 25% of the total appropriated for this activity - $12.2 million. This reduction will severely restrict our efforts to do continuing research and evaluations of training and employment programs identifying what works and what doesn't. The budget has $4 million devoted to the evaluation of the Job Corps program, thus leaving only limited funds for on-going evaluation activities. Important new research related to emerging workforce issues and program effectiveness cannot be pursued. It is a matter of both good government and good business to use research and evaluation to monitor and improve programs. If we spend several billion dollars on training and employment programs, it only makes good sense to spend funds on research that shows whether the programs are effective and if not, how they can be improved or eliminated.

PILOTS AND DEMONSTRATIONS: The reduction is $10.5 million from the $35.5 million appropriated for this activity. Funding will have to be eliminated for the partnership grants and be reduced for programs that assist the handicapped and disabled. The base level will be sufficient only to maintain essential ongoing activities.

YOUTH FAIR CHANCE PROGRAM: Funding for this activity is eliminated. Our four year funding commitment to 17 high poverty communities will have to be terminated. To rescind funding for the third year of this initiative means that there will be no discernable return on a substantial investment. The benefits gained from planning, start up and implementation will be lost. There will be a lack of follow through for a program that received full support from Federal, State and local officials, and more importantly, from residents of local communities in which they operate. YFC will be another example of unkept government promises and a further source of disillusionment about government-sponsored programs for those communities adversely impacted. Because of its uniqueness, there are no programs currently operating or planned that would be able to replace, supplement or defray the loss. Approximately 2,000 at-risk youth per site will no longer be able to receive employment and training assistance to move into productive employment.

NATIONAL SKILL STANDARDS BOARD: Funding for the Skill Standards Board is reduced by one-fourth to $4.5 million. This reduction will force the Board to severely limit the scope of its activities. While it will still be able to effect positive change and mark the beginning of a new era of accountability, consequences of the proposed rescission would not be negligible. For example:

- Fewer private sector partnerships would receive seed money for standards development;
- Research of substantive areas such as assessment would be scaled back;
- Implementation of standards would be delayed;
- Coordination with School-to-Work programs would be impeded; and
- State-based education reform initiatives would be hindered.

NATIONAL COMMISSION FOR EMPLOYMENT POLICY: Funding for the Commission is eliminated. Activities under this program, primarily to perform research to review current labor market conditions and policies and to study technology and the labor market, will be eliminated.

RURAL CONCENTRATED EMPLOYMENT PROGRAMS: Funding for this activity was eliminated. Funding is provided to four States: Montana, Minnesota, Kentucky, Wisconsin. Approximately 1,700 participants would no longer receive assistance.

AMERICAN SAMOANS: Funding for this activity is eliminated. Funding is provided to Hawaii, California and Washington. Approximately 2,200 participants would no longer receive assistance.

MICROENTERPRISE GRANTS: Funding is eliminated for this activity. The President's FY 1996 budget also eliminates funding.

SCHOOL-TO-WORK: The funding is reduced by 10%, or $12.5 million each for the Department of Labor and Education. By zeroing out the national activities for School-to-Work, the Subcommittee has eliminated the possibility for learning on a national scale. We can provide no technical assistance to States, the most efficient way to share best practices. There also can be no evaluation of the initiative, and therefore no ability to systematically determine what works and what does not work.

COMMUNITY SERVICE EMPLOYMENT FOR OLDER AMERICANS: Funding is reduced by $14 million to the President's FY 1995 budget request of $396.5 million. This reduction results in 3,300 fewer elderly persons being provided employment opportunities in PY 1995. These older workers will no longer provide community services such as delivery of meals to the housebound, taking care of children, recreation services for seniors will be cancelled, and other activities will be curtailed.

UNEMPLOYMENT INSURANCE PROGRAM: A reduction of $9 million is applied against budgeted postage resources. No impact, since more efficient mail management practices by States has resulted in postage savings. Also, $31.7 million of UI contingency funds was reduced. No impact, since December, 1994 projected economic assumptions improved causing lower estimated claims workload.

EMPLOYMENT SERVICE: A reduction of $7 million is included for the Allotments to States activity. This reduction would reduce State staff by approximately 130, but would not significantly affect services. The President's FY 1996 budget request reduces funding by $40 million.

ONE-STOP CAREER CENTERS: Funding is reduced by $12 million. This would result in the awarding of eight rather than 10 implementation grants; there would be some reduction in the second year funding of the original six implementation States; there would be some postponement in the production of labor market information products and services under the current plan.

Question. What would be the impact of rescinding the 1996 advance appropriation for summer youth jobs, and considering that, funding in the fiscal 1996 regular Labor-HHS bill?

Answer. The reduction for the Summer Youth employment and Training program in CY 1995 and CY 1996 is $867 million and $871.5 million, respectively. It is estimated that 615,000 young people would have been served in each year. ETA has already obligated nearly all of the available CY 1995 funds, and it is reasonable to assume that some States have begun spending those funds and more States will spend these funds until final Congressional action.

DISPARITY BETWEEN UNEMPLOYMENT AND EMPLOYMENT SERVICES

Your budget includes an increase of $163 million for State Unemployment Insurance operations, and a cutback of $40 million in State Employment Service operations. This would bring funding for State Unemployment Offices to more than $2.5 billion, while Employment Services Offices would get only $805 million.

Question. Why do we spend more than three times as much money processing unemployment claims as we do providing job services? Is the Employment Service ineffective?

Answer. UI - ES SEN 27 The Unemployment Insurance benefits program is an entitlement, that is, any eligible claimant is entitled to receive benefits in a timely manner. In addition, States must collect taxes from the covered employer community. Therefore, the budget requests sufficient administrative resources to accommodate the total workload, which is driven to a large extent by economic conditions.

The Employment Service program provides labor exchange and other services up to the limits of available funds. Unlike Unemployment Insurance benefits, the Employment Service is not the only source of jobs and reemployment services, and many unemployed workers find jobs on their own. The Employment Service is far from an ineffective program. In recent performance periods, the number of job vacancies shared by employers, the number of placements, and the percent of job seekers who secure employment have all increased. Studies have also shown that long-term unemployed who use the Employment Service find jobs faster than those who do not.

Question. Why does the cost of operating the Unemployment Insurance Service go up $163 million, when the level of insured unemployment is projected to stay at the current level of 2.4 percent?

Answer. Although the insured unemployment rate does not increase appreciably from FY 1995 to 1996, there are the following to consider:

- The cost of inflation - $61 million is needed to fund the States' increased salary, benefits, and non-personal services costs resulting from inflation, based on the Gross National Product (GNP) deflator.

- Increase in employer activity workload - The size of the workforce and number of subject employers usually increases each year. $13 million is needed in FY 1996 so that the States can gather the increased number of wage records and collect taxes from the larger employer community.

- Increase in claims activity workload - Although the insured unemployment rate does not increase appreciably, there was a slight increase in the average weekly insured unemployment rate. $22 million is needed to fund the increase in UI claims workload resulting from changes in economic assumptions.

- Contingency reserve - The requested appropriations language releases additional resources if workload increases over that projected in the President's request. $67 million is needed to fund the projected amount that may be needed above the workload estimate for UI claims activity, and thus might trigger the contingency reserve funding mechanism in the appropriation. This contingency reserve amount is not actually being requested, but represents a possible claim against budget authority. This is the OMB methodology which is not consistent with CBO scoring.

Question. What would be the impact of freezing State Unemployment Offices at the fiscal 1995 funding level?

Answer. The impact of funding the unemployment insurance program at the FY 1995 appropriated level of $2,333 million would be to require the States to absorb a $137 million reduction, since the FY 1996 President's request is $2,469 million (excluding $67.9 million for the contingency reserve fund). This reduction in their grants would eliminate funding for the costs of inflation, growth in the size of the workforce and the number of subject employers, and the increase in the number of UI claims.

This reduction could result in:

- closing of some local offices;
- layoffs of approximately 2,600 State UI staff;
- a decline in service to the claimants because of delays in processing benefits;
- loss of program integrity due to overpayment of benefits and under-collection of taxes;

In addition, because the States are required by the provisions of the GATT Act to implement voluntary tax withholding, failure to provide the $8 million requested in the President's budget would constitute an unfunded mandate.

Finally, the Department would not be able to provide $9 million to the States for implementation of telephone claimstaking systems. This money would have been used to invest in technology that would provide long-term savings in program costs.

YOUTH "SECOND CHANCE" PROGRAMS

You are proposing nearly a 50 percent cutback in Youth Training Grants for fiscal year 1996, citing "unsatisfactory program performance and outcomes." Yet you are proposing new legislation to create a "second chance" Youth Workforce Development block grant, to be funded at $1.3 billion in fiscal 1996.

Question. What will be different about this new block grant that will make it more successful than youth training programs under the existing block grants?

Answer. The President's proposal supports the reform of education and workforce preparation for youth that was launched under the School-to-Work Opportunities Act. About 30 different programs and $2.9 billion would be combined to finance school-to-work systems for both in-school youngsters as well as a second-chance system for dropouts. These systems build on what works. They integrate academic and vocational education, link secondary and post-secondary education, provide work-site learning opportunities, and fully involve the private sector.

There is clear evidence based on random assignment evaluation studies that programs can be designed to effectively serve youth, and which return much higher benefits to society than their costs. For example, the Center for Employment Training (CET) has been shown to produce a large increase in earnings of out-of-school youth, primarily high school dropouts. CET is characterized by strong ties to the private sector, both in terms of its instructors and job placement. Also, the Ford Foundation has recently released a report showing that we can dramatically cut the dropout rate and increase the college enrollment of inner-city youth through programs for these youth that are sustained throughout their period in high school.

Also, through our capacity-building and technical assistance activities, we are making available to States and localities information about what works and good ideas that can be used to improve the outcomes and quality of services for dropouts and youth at-risk of dropping out of school.

Question. Will the new program require longer-term job training, since it appears a major criticism of the existing programs is short-term training of three-to-six months has been ineffective?

Answer. The new program will not require training courses of a prescribed length, although we anticipate that it will facilitate the use and replication of successful models which employ longer-term training.

Most job training programs for disadvantaged youth have been short-term and not particularly intensive. However, we know that longer-term services are important, and that training combined with work is particularly important. Interventions that are multi-year and include adult mentors have shown promise. For example, research on the Quantum Opportunities Program indicates that keeping supportive adults consistently available to students beginning in the 9th grade resulted in a positive impact.

Research shows that CET, which provides a highly intensive 3-6 months of vocational training, has had success with disadvantaged youth. Average earnings gains of over $3,000 for youth enrollees were produced during the third and fourth years after graduation. CET is known for integrating academic basic skills instruction into vocational training, and strong links to the private sector. We would also build in a long follow-up period.

Another example of successful longer-term training for disadvantaged youth is the Job Corps. Job Corps training can last up to 2 years and the average length of stay is 7 1/2 months. An evaluation of the Job Corps estimates average earnings gains of about 15 percent.

CRIMINAL OFFENDERS JOB TRAINING AND ASSISTANCE PROGRAMS

It is my belief that criminal offenders, especially juveniles and first and second offenders, should be given a chance at rehabilitation and gainful employment. (Background: The bonding program is free of charge to employees for up to one year; over a fifteen year period, it has been 98.5 percent successful.)

Question. What can be done to strengthen Labor Department job training and employment services for ex-offenders?

Answer. Each year the Department serves about 50,000 ex-offenders in job training programs. Most prisoners are high-school dropouts, and thus have limited labor market skills. Moreover, large proportions of prisoners come from high-poverty neighborhoods. If they return to their home community upon release, they will be living in neighborhoods with limited job opportunities.

Some options for strengthening job training and employment services for ex-offenders include:

- Including many elements of Job Corps programming into new boot camps being developed.
- Increasing the emphasis in State and local prisons on providing high school diplomas and job training to inmates.
- Placing a much greater emphasis on placing ex-offenders in jobs when they are released from prison.

Question. Would you support an expansion of your bonding program, which I understand now serves 1,500 persons each year, at a cost of $250,000?

Answer. No. Since we are proposing a multi-program consolidation, the G.I. Bill for America's Workers which envisions broad State flexibility, we are not proposing expansion of small efforts such as the bonding program.

INVESTMENT INCREASES

Your budget proposes $384 million of current law increases for job training "investment programs" consisting of dislocated worker assistance, the Job Corps, School-to-Work Opportunities, and One-Stop Centers. These are all programs that received substantial increases last year.

Question. Given the fact that you are proposing a major restructuring of job training programs this year, wouldn't it be prudent to forego further expansion of existing programs until we see what happens with new authorizing legislation?

Answer. No. These investments are essential and complementary to our consolidation proposal, the G.I. Bill for America's Workers. Let me provide you with several examples.

We are proposing additional federal investments to leverage system building through One-Stop Career Center Grants and School-to-Work Grants, both of which are integral parts of the G.I. Bill for America's Workers, and both of which have received widespread bipartisan support. We are requesting $200 million in incentives to state and local governments to integrate $2.4 billion in Employment Service and JTPA funds for job placement, counseling, assessment, and training-related and support services, as well as billions more in federal, state and local education, welfare and job training resources, into customer-driven One-Stop Career Centers. This limited amount of One-Stop investment is already transforming the employment and training landscape across America, and it is doing so by devolving authority for the design and operation of these new systems to the state and local level where customized solutions to local circumstances are possible.

A second system-building investment that relies on leveraging large amounts of state and local dollars with a relatively small amount of federal resources is the School-to-Work competitive grant. The President's request for $200 million for School-to-Work in FY 1996, matched by a similar request for $200 million in the Department of Education budget, will continue a process already well underway in a majority of states to build a new learning system for young people that connects classroom learning to real occupational opportunities in the local economy. Like One-Stop, School-to-Work is a system-building investment that is already leveraging enormous change in our children's future prospects by relying on the judgement of state and local officials as well as the private sector. One-Stop and School-to-Work earn their return as catalysts. They are not programs.

The President is also proposing an increased investment of $128 million for Job Corps for FY 1996. Job Corps, which would remain a separate program outside the G.I. Bill for America's Workers, has demonstrated an ability to offer more than 60,000 disadvantaged young people each year an opportunity to turn their lives around, to abandon a path of poverty, drugs, and often prison for a place as a successful and productive citizen. No other program in America over the past third-of-a-century comes close to matching its track record. Nor is any residential program as cost effective. We believe it is very important to make this additional investment.

CONTRACT COMPLIANCE

Question: With President Clinton's pledge to cut executive branch staff by 12 percent, how is the Office of Federal Contract Compliance Programs responding to the current pressures to downsize? What measures is the Office of Federal Contract Compliance Programs taking to strengthen available enforcement tools in order to maintain the Office of Federal Contract Compliance Programs' effectiveness in carrying out its mission with reduced resources? For example, how have the full range of sanctions available been used to enforce violations of federal equal opportunity regulations.

Answer: In light of the Office of Federal Contract Compliance Program's (OFCCP) need to reduce staff resources by 12%, it is imperative that we maximize the potential of the remaining compliance resources by strengthening the enforcement program. OFCCP has already eliminated paperwork burdens on the compliance officer staff in order to spend additional time on developing more and better quality enforcement cases, and is examining the delegation of greater authority to the District Offices so that issues may be expeditiously resolved. OFCCP has increased its coordination with the Solicitor's staff to make better use of litigation resources and has recently begun using fixed term debarments which have a deterrent effect within the Federal contractor community. Efforts are underway to strengthen enforcement through such tools as the comprehensive staff training program and issuance of prompt policy guidance to the field when issues arise. Compliance assistance is also an important component of the agency's approach. A technical assistance manual for contractors is being developed and plans are underway for expanding workshops and seminars so that contractors can better understand program requirements.

In fiscal year 1994, OFCCP began to fully use its sanctions authority by debarring five Federal contractors, obtaining monetary relief of a near record $40 million for 15,000 victims of discrimination.

Question: In what responsibilities does the Office of Federal Contract Compliance Programs overlap with those of the Equal Employment Opportunity Commission (EEOC)? How does the Office of Federal Contract Compliance Programs coordinate with EEOC in order to ensure efforts are not duplicated? There have been several proposals to merge EEOC and the

Office of Federal Contract Compliance Programs. In your opinion, what are the pros and cons of this?

Answer: The Office of Federal Contract Compliance Programs and the Equal Employment Opportunity Commission serve different purposes and therefore do not perform duplicative functions. Although both agencies are concerned with employment discrimination against minorities, women, and the disabled OFCCP and EEOC play complementary roles. Pursuant to Executive Order 11246, OFCCP acts as the Equal Employment administrator in the Federal government's procurement system by requiring contractors to comply with their contractual equal opportunity obligations. These obligations include the development of affirmative action plans that expand employment opportunities through increased recruitment of members of the protected groups. OFCCP promotes fulfillment of these obligations by conducting compliance reviews of Federal contractors' employment practices. In addition, OFCCP brings enforcement actions based on findings of failure to make a good faith effort to implement an affirmative action plan or based on allegations of discrimination by Federal contractors. In contrast, the EEOC is an enforcement agency that principally focuses on investigating and processing individual charges of discrimination against employers, including individual charges referred by OFCCP.

EEOC's massive backlog constitutes a major obstacle to an efficient and effective merger with OFCCP. EEOC's leadership is concentrating the agency's limited resources on management of a backlog that now totals approximately 100,000 pending charges. This is at a time when EEOC projects that it will receive over 93,000 new charges in 1995. In the future, EEOC is not expected to receive any significant budget increases. In contrast, OFCCP, operating within the established structure at the Department of Labor (DOL), has largely eliminated its backlog in handling its annual complaint inventory. Combining the agencies would necessarily affect OFCCP's operations adversely, and OFCCP's progress in improving management would be subordinated to EEOC's efforts to overcome its existing backlog morass.

Transfer of OFCCP to EEOC would cause widespread and protracted disruption of OFCCP's ability to function for reasons independent of EEOC's backlog problem. OFCCP is located within DOL offices nationwide. In addition, EEOC and OFCCP have fundamentally different headquarters and field management structures. Accordingly, a merger would require that many of OFCCP's approximately 800 employees and supporting legal staff would have to be relocated or reorganized -- all at government expense.

Given the magnitude and complexity of the consolidation of OFCCP and EEOC, no cost savings would result in the short run. Indeed, operational and transition costs, in the aggregate, might well be higher in the near term than current DOL operational costs for OFCCP. Moreover, long-term cost savings (as distinguished from cutbacks in maintenance of effort) are highly speculative since no major overlaps exist in the missions and functions of the two agencies.

Transfer would thwart OFCCP's current efforts to continue to revitalize the agency as an effective and efficient procurement presence in the Federal government. Notwithstanding the managerial and reinvention progress that has been made by OFCCP in recent months (customer service bill of rights, reengineering National Office to eliminate backlog, partnership consultations with contractors, etc.), the logistical task of relocating and reorganizing OFCCP into EEOC would necessarily curtail and weaken OFCCP's ability to carry out its mission for a period of years.

The civil rights advocacy organizations that represent the principal groups that OFCCP and EEOC serve (i.e., minorities, women, and the disabled) vociferously oppose consolidation of the two agencies. These advocacy groups are knowledgeable about the problems described above and would view such a consolidation plan as a thinly disguised effort to weaken and undermine the capabilities of OFCCP and EEOC to carry out their distinctive missions. Such a plan would generate active public opposition by these groups. In addition, it is also likely that significant segments of the contractor community (e.g., the Business Roundtable) would object to consolidation because of the business community's previously expressed concern that EEOC would gain the authority, in combination with its enforcement authority under Title VII and the Americans with Disability Act, to impose debarments, a sanction that is presently only available to OFCCP.

Question: With compliance reviews covering a small percentage of Federal contractors each year, how does the Office of Federal Contract Compliance Programs target its reviews and investigations to ensure companies are complying with Federal affirmative action laws?

Answer: The Office of Federal Contract Compliance Programs has developed a contractor selection system based on the EEO-1 Employer Information Report. The EEO-1 report contains demographic information for all employees in nine broad occupational categories. The contractor selection system employs two analyses to describe the employment patterns at a contractor's establishment. The first of these compares the employment patterns at the contractor's establishment with contractors in the same industry and geographic area. The second compares the participation rates of minorities and women in each of the occupational areas and computes an index number. Contractors are then ranked based on these two comparisons with priority for selection for review given to those with the "lowest" indicators.

STRIKER REPLACEMENT REGULATIONS

Question: The press has reported that the Administration plans to go ahead with issuing an executive order sanctioning federal contractors that hire permanent replacements for striking workers, despite the House ban included in a fiscal 1995 rescission bill.

How does this square with the Administration's support for a ban against Davis-Bacon "helper" regulations, which prevents the Executive Branch from by-passing Congressional consideration of this matter?

Answer: The Administration's support for the Congressional ban from enforcing the regulations for semi-skilled "helpers" on Davis-Bacon construction projects is not an attempt to prevent the Executive Branch from bypassing Congressional consideration. It is to allow the Department of Labor time to determine the extent to which semi-skilled helpers should be permitted on Davis-Bacon projects. In fact, the Administration is committed to making every effort toward resolving the "helper" issue through the regulatory process.

PROPOSED OSHA REGULATIONS

Question: The Occupational Safety and Health Administration has been holding "indoor air quality" hearings, a necessary first step before developing regulations on smoking. What plans do you have to issue new OSHA air quality regulations?

Answer: On April 5, 1994, OSHA published its Indoor Air Quality proposal. Public hearings on the proposal began on September 21 of that year and concluded on March 13, 1995. A post-hearing comment was established by the Administrative Law Judge. The Judge determined that the first part of the post -hearing comment period, in which data and other additional information are provided to OSHA, will run 100 days, ending on July 3, 1995. The second part of the period, for briefs, will run 70 days ending on September 11, 1995. The total post-hearing comment period is 180 days, or 6 months. After all the docket material is reviewed and analyzed, OSHA will make a determination about what steps, if any, the agency will pursue next.

Question: What is your timetable for other OSHA regulations, including ergonomics?

Answer: The timetable for OSHA rulemaking actions are outlined in the President's Regulatory Agenda, published semi-annually. I have enclosed a copy of the most recent edition of this document, dated October 1994. We are currently making revisions to the schedule, which will be reflected in the April publication of the President's Agenda. We will inform you of the revised dates, including changes to the ergonomics schedule, as soon as they are finalized.

[Clerks' note.--Due to its volume, the submitted material was retained in subcommittee files.]

NATIONAL MINE HEALTH AND SAFETY ACADEMY

Question. Provide the amount of revenues received by the Academy for the use of its facilities and for classes for FY 1993, FY 1994, FY 1995, and the projected amounts for FY 1996.

Answer. The revenues for the use of Academy facilities (lodging) and classes (tuition) are provided below.

FY 1993	Lodging	$149,087
	Tuition	15,630
	Total	164,717
FY 1994	Lodging	$134,680
	Tuition	9,732
	Total	144,412
FY 1995 estimate	Lodging	$138,600
	Tuition	18,000
	Total	156,600
FY 1996 estimate	Lodging	$142,600
	Tuition	18,500
	Total	161,100

Question. Provide the staffing levels at the Academy for those same years.

Answer. The Academy's staffing level (actual FTE) was 67 for FY 1993 and 69 for FY 1994. The budgeted FTE is 63 for FY 1995 and FY 1996.

Question. Please advise how many requests have been made for the use of the Academy, how many were granted, and how many were turned down for FY 1993, FY 1994 and the numbers that are available for FY 1995.

Answer. MSHA has accommodated all mission-related requests for the use of the Academy. Occasionally, this requires alternative scheduling. In FY 1993, there were 293 requests for mission-related courses, and 293 were granted. In FY 1994 there were 379 requests for mission-related use of the facility and 379 were granted. To date, in FY 1995 there have been 314 requests for mission-related use of the facility through the end of the fiscal year and 314 were granted.

Question. Does the use of the Academy by other Federal agencies result in expanded benefits and cost savings to the taxpayers?

Answer. The Academy provides classroom/meeting room space free on a space available basis to Federal agencies which results in savings to the taxpayers. These rooms are furnished with all audio visual equipment required by the user also at no cost. In this area, commercial space is limited and would cost a minimum of $100 to $200 per day. Local agencies using the Academy do not have to incur travel costs which is another savings to the taxpayers.

In FY 1994 the Academy provided space to 27 different Federal Departments and Agencies on 211 occasions. Based on prevailing local commercial rates, this service saved the taxpayers approximately $59,000 in rental costs.

MSHA APPROVAL AND CERTIFICATION CENTER

Question. Please provide the number of Full Time Equivalents at this facility for FY 1993, FY 1994, FY 1995 and the number of FTE projected for FY 1996.

Answer. The actual FTE for the Approval and Certification Center was 85 in FY 1993 and 81 in FY 1994. The projected FTE for FY 1995 and FY 1996 is 80.

Consumer Price Index

Question: What are the major problems in the current Consumer Price Index measurement?

Answer: In current discussions, four areas of concern about measurement problems in the Consumer Price Index (CPI) usually are cited. Three of the four -- the substitution effect, sample rotation effect and outlet substitution effect -- are associated with small upward biases in the CPI as a cost-of-living proxy, but the effect of the fourth -- the quality adjustment effect -- cannot be quantified with confidence.

The substitution effect in the CPI arises because the CPI measures the cost of purchasing a fixed market basket of goods and services, and thus does not allow for the substitution of cheaper for more expensive products when relative prices change. The current CPI market basket reflects the 1982-84 pattern of consumer expenditures. As part of the CPI revision currently underway, the index from January 1998 forward will be based on a 1993-95 market basket. In part, because the CPI is based on a fixed market basket, the BLS makes extensive efforts to let users know that the CPI is not a measure of the change in the cost of living.

The sample rotation effect arises because procedures for systematically introducing new outlets and items into the CPI tend to give high weight to prices that are temporarily low in the month the new samples are introduced and low weight to prices that are temporarily high. Thus, these procedures can cause an overstatement of price change in the period immediately following sample replacement. The BLS has taken steps to address the sample rotation problem for the food at home component effective with the data for January 1995. If further corrective measures can be identified, they will be incorporated as part of the ongoing CPI revision.

The outlet substitution effect can arise because consumers are free to substitute where they buy goods and services as well as what they buy. For example, if consumers don't consider the lower level of customer service provided by a discount store to be of any consequence, they may shift to such stores. Current CPI procedures would not capture any price decline associated with such a shift. Although it is unclear whether and to what extent there is a bias associated with the CPI's treatment of discount outlets, further research on this issue would be valuable.

Question: Does Bureau of Labor Statistics believe the Consumer Price Index under or overestimates inflation rates? Does the over/understatement vary depending upon the item?

Answer: Some have estimated that the overstatement in the CPI is as large as 1.5 percentage points per year. Estimates of this size require that there be a large quality-adjustment bias, arising as a consequence of substantial improvements in the quality of the goods and services consumers purchase that are not reflected in the construction of the index. The BLS currently makes a considerable effort to properly account for changes in the quality of the items it prices. Although many believe that the CPI is substantially biased upward because quality improvements are not fully accounted for, there is little direct evidence to support this view. Indeed, some, admittedly a minority, have even suggested that quality adjustment problems lead to a downward, not an upward, bias in the CPI.

Adjusting for changes in the quality of goods and services remains one of the most challenging tasks in constructing any price index. Solutions to the problem, it is widely agreed, are not obvious. A promising strategy for improving the CPI's accounting for changes in the quality of goods and services would be to expand the collection of information on items' characteristics, which would allow BLS to estimate the value of particular features and explicitly adjust items' prices for changes in those features. This approach is currently used in several components of the index and its extension to other areas is being explored.

Assessments of the total bias in the CPI as a cost-of-living proxy vary considerably. Federal Reserve Board research staff have concluded that the CPI may overstate the change in the cost-of living by 0.4 to 1.5 percent per year, though they also say that "these estimates are by necessity extremely rough." Another review done recently by researchers at the Congressional Budget Office concludes that the bias in the index is probably much smaller, in the range from 0.2 to 0.8 percent. Researchers at the Dallas Federal Reserve Bank conclude that "a figure of less than 1 percent ... strikes us as a plausible estimate of the overall [upward] bias" in the CPI, but add "the true figure may be a lot larger or a lot smaller; at present we simply do not know."

The Bureau of Labor Statistics (BLS), has been active in its efforts to identify and correct problems with the index. Much of the most important research that underlies recent assessments of measurement problems in the CPI has been carried out, in fact, by BLS researchers. We will continue these research efforts to identify potential measures that more accurately assess the cost-of-living for American consumers. We will also continue to present our findings in an open and objective manner so that these results can be evaluated and discussed by all interested parties.

Question: How much more accurate will the new Consumer Price Index be than the current one?

Answer: Quantifying the differences between a revised and unrevised CPI in advance is not possible. BLS routinely publishes in parallel both revised and unrevised indexes for six months following the introduction of a revised CPI, so that we will have better information about how the two differ once the new index has been released. The experience of previous CPI revisions, as well as evidence from our empirical research, leads us to expect that the revised index most likely will rise a bit more slowly than the unrevised index would have risen.

Question: Will a different methodology be used in the new Consumer Price Index that will better measure the effects of quality change and substitution?

Answer: During the current CPI Revision, BLS plans to evaluate at least two major new improvements to existing quality adjustment methods. First, the basic approach to the measurement of price change for medical care will be examined. Building on work currently underway in the BLS Producer Price Index program, the Bureau will determine the feasibility of tracking complete treatments rather than individual items or services as a method of measuring price change for the medical care purchased by consumers. This would provide a framework for taking into account the ongoing, rapid advances in both medical technology and treatments. Although the medical care component of the CPI poses extremely difficult measurement problems, the work underway at BLS appears to offer at least a partial answer to the very complex difficulties that need to be resolved.

A second major change, which would help to address the problems posed by the introduction of new goods and services into the market place, involves the possible redesign of the BLS approach to outlet sample updating. At present, BLS updates the sample of outlets in twenty percent of the CPI geographic area sample each year. Prospective changes in the manner by which BLS obtains information on where consumers make their purchases may allow a fundamentally different approach whereby specific components of the index are updated across all areas of the country at roughly the same time. This change would enable BLS to focus on components of the index where introduction of new products is occurring more rapidly, and allow such products to enter into the CPI on a more timely basis than is currently the case.

The technical issues to be confronted in the area of quality adjustment present extremely difficult conceptual and measurement problems, which in some cases extend beyond the current state of the art in the economics and statistics professions. Nonetheless, BLS will continue to address these issues, and pursue, to the extent it is possible to do so with our existing resources, all promising approaches, whether developed by BLS or by other researchers.

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Among the critical differences between a cost of living index and a fixed-weight, Laspeyres index such as the CPI, the one most susceptible to measurement relates to the well-founded theoretical principle that consumers will respond to changes in relative prices. BLS researchers have done some of the major studies to measure this effect, which has become known as the "substitution bias". Although substitution effects are a limitation of fixed weight indexes such as the CPI, no one presently has the capability to produce a true cost of living index, and thus indexes such as the CPI are invaluable, practical alternatives to what in theory would be the most desirable measure.

Measures of the substitution effect are produced with a lag, as they require information that is not available on a monthly, real time basis. In theory, substitution bias may arise any time the relative prices of goods and services change. Given the dynamic, continuously changing nature of the markets for many goods and services, measures that completely account for substitution bias thus are simply impossible to produce. BLS experience suggests that there is a component of the overall substitution bias attributable to long term trends in relative prices, and periodic updates of the CPI weights, as proposed in the CPI Revision now underway, deal with this aspect of the overall substitution bias issue.

BLS is investigating the properties of a family of experimental indexes that would provide some practical, empirically based evidence as to how indexes that handle substitution differently than does the current index perform. Possible experimental indexes now under consideration include more frequently reweighted Laspeyres indexes, an index based on geometric means, and a class of prices measures known as superlative price indexes. These latter indexes appear to offer the best approximations to a cost of living measure, in the sense of accounting for substitution possibilities, but can now only be produced retrospectively as information on changes in consumer spending patterns becomes available. It is possible that the production of a family of indexes which, in fact, answer different questions and respond to different needs, would provide an important supplement to the valuable information on price trends that the CPI presently provides.

Question: In general terms, what will be the financial impact of the Consumer Price Index revision on poverty thresholds, wage rates for collective bargaining employees, and other individuals whose income payments are adjusted by the Consumer Price Index.

Answer: It is not possible to determine in advance how a revised index will differ from an unrevised index. As already noted, however, the experience of previous CPI revisions, as well as evidence from our empirical research, indicates that the revised index tends to rise more slowly than the unrevised index. Differences in movement between the old and new indexes result largely from the differences in the expenditure weights used in each index. Therefore, for contracts or programs adjusted by the CPI, it is likely that they will increase less rapidly after the release of a revised index than they would have using the "old" index.

REDUCTION OF BLACK LUNG BACKLOGS AT THE BENEFITS REVIEW BOARD

Question: I was pleased to learn from your April 1994 report that the backlog of Black Lung claims at the appeal level has improved. Last year, you advised me that the Benefits Review Board would have fewer than 1,600 appeals pending at the Board at the end of FY 1994 and anticipated elimination of backlogs by the end of FY 1995. Was the FY 1994 goal met, and what is being done to meet your backlog elimination objective for FY 1995?

Answer: At the end of FY 1994, the Benefits Review Board had 1,740 pending Black Lung appeals, which was slightly higher than the target of 1,589 pending cases which we had set. However, the total of 1,740 pending appeals was a reduction of almost 1,100 pending appeals, slightly more than 38%, from the number of appeals pending at the end of FY 1993. While we did not reach our target, we came very close, and during FY 1994 we significantly reduced the number of Black Lung cases pending at the Board.

During the first five months of FY 1995, the number of pending Black Lung appeals has been reduced even further, dropping by an additional 326 cases, approximately 19%, to 1,414 pending appeals. We project continuing improvements during the remainder of this fiscal year. Based upon our current pattern of case intake and dispositions, we project that the Board will have fewer than 1,000 Black Lung cases pending at the end of FY 1995, which would mean that the backlog of pending Black Lung cases at the Board would be eliminated. At that time, the Board will be reviewing current appeals as they become processable. Unless a case is blocked or otherwise held in abeyance, no Black Lung cases should be pending before the Board at the end of FY 1995 which were received prior to the beginning of the fiscal year. We estimate that the average case processing timeframe for Black Lung cases will have been reduced to a level of nine months by the end of the fiscal year, and we project further improvements in this area during FY 1996.

PENDING BLACK LUNG CASES AWAITING OALJ HEARING

Question: Please provide a list of the number of claims pending assignment to be heard by the Office of the Administrative Law Judge, by state, as of March 1, 1995. Also provide the age of the case from the date of receipt to assignment. Please provide information on when you expect those cases to be assigned for hearing.

Answer: Summarized below is the information which is requested regarding the number of pending Black Lung cases in the Office of Administrative Law Judge (OALJ) as of March 1, 1995. This summary has been divided into two reports based on the age of the case since being docketed at the OALJ. The most relevant report is the report that contains cases that are over 150 days old. The information shown for these cases includes the claimant's residence (County and State); the case number; the claimant's name; the date received; the age of the case as of March 1, 1995; the scheduled hearing date; and whether the case involves "Lukman" issues. Also, the cases noted with an asteric (*) are cases where continuances have been granted at the request of the parties on one or more occasions, and/or where there are requests for change of venue.

All cases over 150 days old (274) have been assigned to an administrative law judge for hearing. Each of these cases will have a hearing held by July 31, 1995. Some known hearing dates have been listed, but the judges are still slotting the majority of the cases into specific dates. Of the 274 cases pending for more than 150 days, 29 (11%) involve 'Lukman' issues.

The second listing of cases are those cases that were received in the Office of Administrative Law Judges since the beginning of FY 1995 (October 1, 1994). These are those that represent the typical pending workload for the Black Lung area. These cases are routinely docketed and combined into hearing itineraries as they are received. These cases are sorted by State, as requested, and then by County. Of the 639 cases that were pending for less than 150 days as of March 1, 1995, 34 (5%) involved 'Lukman' issues.

BLACK LUNG CASES PENDING MORE THAN 150 DAYS

CLAIMANT COUNTY	ST	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
JEFFERSO	AL	93BLA01388 •	GARDNER MELVIN,S	28JUN93	0611	05JUN95	-
MARION	AL	94BLA01849 •	FRANKS JOHN K.	25AUG94	0188		-
WALKER	AL	94BLA01526 •	WALLACE L.D.	16JUN94	0258	05JUN95	Y
WALKER	AL	94BLA00952 •	MORRIS LETSON	15MAR94	0351	05JUN95	Y
FRANKLIN	AR	92BLA00291 •	ELLETT ROBERT	22NOV91	1195		-
JOHNSON	AR	94BLA01258 •	ROGERS WOODROW	16MAY94	0289		-
LOGAN	AR	94BLA00580 •	DOVE GRADY E.	11JAN94	0414		-
SEBASTIA	AR	92BLA01554 •	VARDO JOHN	28JUL92	0946		Y
COCONINO	AZ	91BLA02496 •	JONES GRANT	25JUL91	1315		-
MARICOPA	AZ	94BLA01467 •	BAUGHMAN CALVIN	20JUN94	0254		-
MOHAVE	AZ	94BLA00360 •	MOORE HARRY E.	30NOV93	0456		-
FRESNO	CA	94BLA00892 •	MOORE VASKO G.	11MAR94	0355	06JUL95	-
DELTA	CO	94BLA00756	GOMEZ GERALD O.	15FEB94	0379		-
LAS ANIM	CO	94BLA01030 •	FERNANDEZ ALEX	05APR94	0330		-

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CLAIMANT COUNTY	ST	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
FAIRFIEL	CT	94BLA01948	GUALTIERI GUIDO	12SEP94	0170		-
	FL	93BLO00058 •	BROWN LLOYD H.	03JUN93	0636		-
BREVARD	FL	94BLA00141 •	HOSKINS DONNIE T	22OCT93	0495	04JUN95	Y
BREVARD	FL	94BLA01503 •	DUNLEAVY HARRY O	28JUN94	0246	04JUN95	-
BREWARD	FL	92BLA01327 •	WILLIAMS JOHN	15JUN92	0989		Y
CLAY	FL	94BLA01591	HODGE AUTIE O.	08JUL94	0236	04JUN95	Y
CLAY	FL	90BLA01229 •	CLIFTON CHARLES	10APR90	1786	04JUN95	-
DUVAL	FL	92BLA01553 •	WORKMAN DANNY D	28JUL92	0946	04JUN95	Y
PINELLAS	FL	92BLA00375 •	KISH WALTER E.	16DEC91	1171		Y
PUTNAM	FL	94BLA00989	HAGER JAMES C.	24MAR94	0342	04JUN95	Y
SANTA RO	FL	94BLA00651	WORLEY STEVEN	11JAN94	0414		Y
VOLUSIA	FL	94BLA01413	MITCHELL GEORGE	07JUN94	0267	04JUN95	Y
FAYETTE	GA	91BLA02941 •	MIHEVC FRANK	30SEP91	1248		Y
APPANOOS	IA	94BLA01820	SLEETH WILLIAM A	19AUG94	0194	10JUL95	-
APPANOOS	IA	94BLA01453	STARCHEVICH JOHN	17JUN94	0257	10JUL95	-
BOONE	IA	94BLA00614 •	CERRETTI LONDIE	21JAN94	0404	10JUL95	-
BOONE	IA	93BLA01464 •	BREGAR AUGUST	13JUL93	0596	10JUL95	-
MARION	IA	93BLA01397	ALMON MARVIN J.	28JUN93	0611	10JUL95	-
MONROE	IA	94BLA00717	CLARK EUGENE	08FEB94	0386	10JUL95	-
SCOTT	IA	94BLA00891	ZEMO FRANKIE J.	11MAR94	0355	10JUL95	-
FULTON	IL	94BLA01422	FURGERSON JACK	13JUN94	0261	10JUL95	-
FULTON	IL	94BLO00033	NELSON RALPH	18APR94	0317	10JUL95	-
GALLATIN	IL	94BLA02018	SOUTH KENNETH	20SEP94	0162		-
MACOUPIN	IL	94BLA01915 •	RANGER DONALD W.	07SEP94	0175		-
MONTGOME	IL	90BLO00198 •	MARTIN EDWARD	03JUL90	1702		-
MONTGOME	IL	94BLA01707 •	FURGESON HAROLD	08AUG94	0205		-
SANGAMON	IL	94BLA00621 •	DINARDO EUGENE	21JAN94	0404		-
SCHUYLER	IL	94BLA00163 •	GRIGGS PAUL J.	27OCT93	0490		-
ST.CLAIR	IL	94BLA00619 •	LUECKING LAWRENC	21JAN94	0404		-
VERMILIO	IL	94BLA01205 •	NEITZELT JAMES R	03MAY94	0302		-
VERMILIO	IL	94BLA01326 •	GRISKELL EDWARD	25MAY94	0280		-
WHITESID	IL	94BLA00200	POFF EVERETT C.	02NOV93	0484	10JUL95	-
ALLEN	IN	93BLA00449 •	MITCHELL CLYDE	29DEC92	0792	15JUN95	-
CLAY	IN	93BLO00005	GILLESPIE CURTIS	28OCT92	0854		-
CLAY	IN	94BLA00079	HEAD WILLIAM O.	19OCT93	0498		-
DAVIESS	IN	94BLA02052	BOYD CARL	28SEP94	0154		-
DELAWARE	IN	94BLA01594 •	JONES CHESTER C.	12JUL94	0232		-
GIBSON	IN	94BLA02003	FREDERICK MALVER	20SEP94	0162		-
GREENE	IN	93BLA01681	PICKETT HAROLD R	16AUG93	0562		-
GREENE	IN	94BLA01439	PRICE ERCIL	21JUN94	0253		-
KOSCIUSK	IN	94BLA01952	REFFITT AMOS	12SEP94	0170	15JUN95	-
PARKE	IN	94BLA01206	RUSSELL CHARLES	03MAY94	0302		-
PIKE	IN	93BLA00426	ROBLING DONALD E	28DEC92	0793		-
PIKE	IN	93BLA01254	ROBLING PAUL E.	01JUN93	0638		-
PIKE	IN	94BLA01288	LOVELESS OWEN	17MAY94	0288		-
SULLIVAN	IN	94BLA01710	MINKS JESS L.	08AUG94	0205		-
VAND.	IN	94BLA01868	EMBRY EARL	30AUG94	0183		-
VERMILIO	IN	94BLA00030	SHULL LAWSON	05OCT93	0512		-
VERMILLI	IN	94BLA00199	CHEEVER VERNELLE	02NOV93	0484		-
VERMILLI	IN	94BLA01040 •	NATALIE ERNEST	05APR94	0330		-
VIGO	IN	94BLA02047	KIRBY HERSHEL	28SEP94	0154		-
VIGO	IN	94BLA00228	SOLLARS NORVAL E	08NOV93	0478		-
VIGO	IN	93BLA01552	COX RUSSELL G.	27JUL93	0582		-
GREENWOO	KS	94BLA01674	LIRA GELDA A.	26JUL94	0218		-
BOONE	KY	93BLA01527 •	CRUSE ALVIN	26JUL93	0583		-
CALDWELL	KY	94BLA01845 •	WYATT FLOYD	23AUG94	0190		-
CLAY	KY	94BLA01066 •	HOLLIN LEONARD	13APR94	0322		-
CLAY	KY	94BLA01317 •	BROCK DONALD R.	24MAY94	0281		-
FAYETTE	KY	94BLA01567	WATSON PAUL	06JUL94	0238		-
FLOYD	KY	94BLA00207 •	STURGILL JERRY	02NOV93	0484		-
FLOYD	KY	94BLA01302 •	MCKENZIE CLAUDE	18MAY94	0287		-
FLOYD	KY	94BLA01242 •	FRASURE SCOTT	10MAY94	0295		-
FLOYD	KY	94BLA00848 •	LEMASTER CHARLES	03MAR94	0363		-
FLOYD	KY	94BLA00906 •	ODEN DUANE	15MAR94	0351	06JUN95	-
GREEN	KY	94BLA01873	MOSES REX H.	30AUG94	0183		-
HARLAN	KY	94BLA00722	BURGAN ROBERT LE	08FEB94	0386		-
HARLAN	KY	94BLA00674	MORGAN ELBERT	02FEB94	0392		-
JACKSON	KY	93BLA00269 •	MAYES ANDY J.	27NOV92	0824		-
JOHNSON	KY	94BLA00328 •	SMITH JOHN H.	26NOV93	0460		-
JOHNSON	KY	94BLA00721 •	MONTGOMERY HAROL	09FEB94	0386		-
JOHNSON	KY	94BLA00903 •	SHEETS PAUL M.	15MAR94	0351	08JUN95	-
JOHNSON	KY	94BLA01958	CANTRELL WILSON	12SEP94	0170		-
KNOT	KY	94BLA01789	VANCE ELDRED	15AUG94	0198		-
KNOTT	KY	94BLA01957	SAMMONS CHARLES	12SEP94	0170	09JUN95	-
LAUREL	KY	94BLA00140 •	VAUGHN LESLIE	22OCT93	0495		-
LAWRENCE	KY	94BLA01793 •	CLINE JACK	15AUG94	0198		-

CLAIMANT COUNTY	ST	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
LESLIE	KY	94BLA01930	CALLAHAN MONROE	07SEP94	0175	06JUN95	-
LESLIE	KY	94BLA01575 •	MULLINS ODELL	08JUL94	0236		-
LESLIE	KY	94BLA01553 •	BAKER DAN	01JUL94	0243	06JUN95	-
LESLIE	KY	94BLA01360	SIMPSON GEORGE	01JUN94	0273		-
LESLIE	KY	94BLA01929	ASHER DARREL D.	07SEP94	0175	06JUN95	-
LETCHER	KY	94BLA00763 •	PROFITT MARION A	15FEB94	0379		-
LETCHER	KY	94BLA01375 •	SPANGLER FRED	07JUN94	0267		-
LETCHER	KY	94BLA01752 •	CONATSER ELMER	03AUG94	0210	08JUN95	-
LETCHER	KY	94BLA01925	SEXTON OTIS	07SEP94	0175	07JUN95	-
LETCHER	KY	94BLA01673 •	CORNETT CHARLES	26JUL94	0218		-
LETCHER	KY	94BLA01341 •	KIMBLEY HENRY	28MAY94	0277		-
LETCHER	KY	94BLA01505 •	ROGERS EDWARD	28JUN94	0246		-
LETCHER	KY	94BLA01297	BENTLEY BILLY R.	17MAY94	0288		-
LYON	KY	94BLA01299 •	JARRELL RAYMOND	17MAY94	0288	06JUN95	-
MARTIN	KY	94BLA00204 •	GULLETT TROY	02NOV93	0484		-
MARTIN	KY	92BLA00641 •	STATEN ROBERT	18MAR92	1078		-
MARTIN	KY	93BLA00834 •	MAYNARD JOHN A	10MAR93	0721		-
MARTIN	KY	94BLA00454 •	PREECE ROY	14DEC93	0442		-
MARTIN	KY	94BLA01043 •	KAZEE RUFUS	06APR94	0329		-
MCCREARY	KY	94BLA01566 •	STEPHENS WILEY	06JUL94	0238		-
MCCREARY	KY	94BLA01963 •	BARNETT NOBLE	14SEP94	0168		-
MCCREARY	KY	94BLA01152 •	VAUGHAN OTHEL	25APR94	0310		-
MCLEAN	KY	94BLA01084 •	CONRAD CLIFTON	14APR94	0321		-
MENIFEE	KY	94BLA01101	RATLIFF HARLAN R	18APR94	0317		-
MUHLENBE	KY	94BLA01070 •	EDGE BILLY	13APR94	0322		-
MUHLENBE	KY	94BLA01545 •	FERGUSON JAMES L	30JUN94	0244		-
PERRY	KY	94BLA01371 •	HURT JOE	07JUN94	0267		-
PERRY	KY	94BLA01924	HOWARD JESSE, JR	07SEP94	0175	05JUN95	-
PERRY	KY	94BLA01644	BOWLING KAY	18JUL94	0226		-
PERRY	KY	94BLA01671 •	SMITH BURNICE	25JUL94	0219		-
PERRY	KY	94BLA01156 •	BANKS RAY	25APR94	0310		-
PERRY	KY	93BLA01766 •	SUMNER BOBBY	31AUG93	0547	05JUN95	-
PIKE	KY	94BLA02070	BARTLEY WENDELL	28SEP94	0154		-
PIKE	KY	94BLA01780 •	BURKE ELMER	02AUG94	0211		-
PIKE	KY	94BLA01875	BRANHAM LARRY G.	30AUG94	0183		-
PIKE	KY	94BLA02001	BENBOW ROBERT	20SEP94	0162		-
PIKE	KY	94BLA01979	SLONE BENNIE	16SEP94	0166		-
PIKE	KY	94BLA01927	WOLFORD WILLIAM	07SEP94	0175		-
PIKE	KY	94BLA00612 •	SLONE JOHN W.	21JAN94	0404		-
WAYNE	KY	94BLA02000 •	WALLACE ARNOLD C	20SEP94	0162		-
CALCASIE	LA	93BLA01870	BLAKE ROY T.	24SEP93	0523		-
ALLEGANY	MD	93BLA00112 •	GROVE ERVIN A.	22OCT92	0860		Y
WASHTENA	MI	92BLA01121 •	CALDWELL FLOYD P	06MAY92	1029	12JUN95	-
WAYNE	MI	93BLA01901 •	ADKINS BURL C.	29SEP93	0518	12JUN95	-
WAYNE	MI	94BLA00930 •	HARDNETT JAMES	17MAR94	0349	12JUN95	-
WAYNE	MI	94BLA01502 •	MCCLANAHAN CLARE	28JUN94	0246		-
HENNIPEN	MN	93BLA01430 •	MARTIN HOBERT F.	07JUL93	0602		-
CHARITON	MO	94BLA00264	BEST RANCE	08NOV93	0478		-
OREGON	MO	94BLA01199	STIDHAM HOBART	03MAY94	0302	26JUN95	-
PUTNAM	MO	94BLA00718	LEACH FRANK	08FEB94	0386		-
STONE	MO	94BLA01593	TELFORD GORDON O	12JUL94	0232	26JUN95	-
ROSEBUD	MT	93BLA01463 •	STILES CLINTON E	13JUL93	0596		-
ALEXANDR	NC	94BLA00850 •	ROBEERTS JAMES E	07MAR94	0359	10JUL95	Y
AVERY	NC	93BLA00133 •	HUGHES ALFRED	28OCT92	0854	10JUL95	-
CATAWBA	NC	91BLA01696 •	SHORTRIDGE GRADY	20MAR91	1442	10JUL95	-
FORSYTH	NC	91BLA00937 •	PERDUE DONALD	18DEC90	1534	10JUL95	Y
N HAMPTN	NC	93BLA00825	VARNER GEORGE J	03MAR93	0728	10JUL95	-
STOKES	NC	94BLA01586 •	JENNINGS DOUGLAS	01JUL94	0243	10JUL95	Y
SURRY	NC	93BLA00818 •	WOOD MELVIN J	08MAR93	0723	10JUL95	-
UNION	NC	94BLA01274	HAMILTON JOHN	10MAY94	0295	10JUL95	Y
WILKES	NC	93BLA00754 •	YALE BOYD R.	22FEB93	0737	10JUL95	-
MERCER	ND	93BLA01876	NELSON DARELD P.	24SEP93	0523		-
UNION	NJ	90BLA01672 •	STAPLES JOSEPH	23MAY90	1743		-
CALFAX	NM	93BLA00599	JIRON MARCOS	25JAN93	0765		-
CIBOLA	NM	94BLA01098	RUSSELL ROBERT L	18APR94	0317		-
COLFAX	NM	93BLA01288	MADDALENI MAURO	14JUN93	0625		-
COLFAX	NM	94BLA01381	CORDOVA ERNEST	07JUN94	0267		-
COLFAX	NM	93BLA01810	QUARTIERI LINO	10SEP93	0537		-
COLFAX	NM	93BLA00959	GRANO PRIMITIVO	31MAR93	0700		-
EDDY	NM	93BLA01083	BROYLES EARL H.	29APR93	0671		-
SANTA FE	NM	94BLA00304 •	GRIEGO DAVE	19NOV93	0467		-
ALLEN	OH	94BLA01499	CRISP ALBERT	28JUN94	0246		-
BELMONT	OH	94BLA02046	SOWINSKI EDWARD	28SEP94	0154	07APR95	-
BELMONT	OH	94BLA01949	MELNICK RICHARD	12SEP94	0170	07APR95	-
BELMONT	OH	94BLA01376 •	ERAZMUS JOHN	07JUN94	0267		-
BUTLER	OH	94BLA01123 •	COX ROSCOE	20APR94	0315		-

CLAIMANT COUNTY	ST	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
CARROLL	OH	94BLA00225 •	TABLER WESTLEY H	08NOV93	0478		-
COLUMBIA	OH	93BLA00896 •	VANCE NOAH	23MAR93	0708		-
COSHOCTO	OH	94BLA01314 •	STRANGE MEARL	24MAY94	0281	26APR95	-
CUYAHOGA	OH	94BLA01867 •	WOLF CLETUS H.	30AUG94	0183		-
CUYAHOGA	OH	94BLA00765 •	LAWSON JAMES	15FEB94	0379		-
CUYHOGA	OH	94BLA02049 •	STOUT FRED T.	28SEP94	0154		-
FRANKLIN	OH	94BLA01667	SCOTT CODY	25JUL94	0219		-
HAMILTON	OH	94BLA01664 •	CARTER HARVEY P.	25JUL94	0219		-
HARDIN	OH	94BLA01787	DYER RICHARD	15AUG94	0198		-
LAKE	OH	94BLA00198	PISTININZI REYNO	02NOV93	0484		-
LORAIN	OH	93BLA01840 •	JAMES HERBERT	21SEP93	0526		-
RICHLAND	OH	94BLA01290 •	MOLLETT FRANK D	17MAY94	0288		-
SENECA	OH	94BLA00383	SMITH CHRISTOPHE	02DEC93	0454		-
TRUMBULL	OH	94BLA01765 •	COGAR GLENN	02AUG94	0211		-
COAL	OK	94BLA01455	MCKINNEY THORBE	17JUN94	0257		-
LEFLORE	OK	94BLA01026 •	SINCLAIR ERNEST	05APR94	0330		-
LEFLORE	OK	92BLA00293 •	JONES VERNIE	26NOV91	1191		-
MCINTOSH	OK	93BLA01275	BURNS CURTIS L.	07JUN93	0632		-
MUSKOGEE	OK	94BLA01259	GODFREY LEAMON H	16MAY94	0289		-
TULSA	OK	94BLA01032	HOLMAN JOHN	05APR94	0330		-
ALLEGHEN	PA	94BLA01204	IRVIN TIMOTHY	03MAY94	0302	04APR95	-
BEAVER	PA	94BLA02054 •	KANE DAVID F.	28SEP94	0154	05APR95	-
BUTLER	PA	94BLA01001 •	DOYLE JAMES R.	28MAR94	0338	03APR95	-
CAMBRIA	PA	94BLA01727 •	LEE JOHN H.	12AUG94	0201	04APR95	-
CARBON	PA	94BLA00870	CATTIVERA SERAFI	08MAR94	0358		-
CLEARFIE	PA	94BLA00623 •	MILLER GERALD	21JAN94	0404		-
CLINTON	PA	94BLA01480 •	PALMER JAMES B.	22JUN94	0252		-
ERIE	PA	94BLA01706 •	MOORE ARNOLD E.	08AUG94	0205	23MAY95	-
FAYETTE	PA	94BLA02053 •	JACKSON JOHN M.	28SEP94	0154	07JUN95	-
GREENE	PA	94BLA01369 •	MARTIN FRANK	07JUN94	0267	09JUN95	-
INDIANA	PA	94BLA01737 •	RELLICK MICHAEL	05AUG94	0208	05JUN95	-
JEFFERSO	PA	94BLA00366 •	KERR DEAN H.	30NOV93	0456	03APR95	-
LACKAWAN	PA	94BLO00035 •	DUBRANSKI JOHN	20JUN94	0254		-
LUZERNE	PA	94BLA01469 •	BUBBLO JOHN	22JUN94	0252		-
LUZERNE	PA	92BLA01836 •	SHUMACK WILLIAM	29SEP92	0883		-
LUZERNE	PA	94BLA01691 •	BOCALO JOSEPH	14JUL94	0230		Y
WESTMORE	PA	94BLA01181 •	GDOSKY ROBERT	18APR94	0317	07JUN95	Y
WESTMORE	PA	92BLA01752 •	SABO STEVE	11SEP92	0901	05APR95	-
SPARTANB	SC	93BLA00991 •	HARBER TUNIS	08APR93	0692		-
SUMTER	SC	91BLO00095 •	MURPHY KERMIT	06MAY91	1395		-
CAMPBELL	TN	94BLA02029 •	SILER JAMES L.	12SEP94	0170		Y
CAMPBELL	TN	94BLA01975 •	COOK CHARLES G.	15SEP94	0167		-
CLAIBORN	TN	94BLA01852 •	FULTZ DANNY L.	26AUG94	0187		-
CLAIBORN	TN	94BLA00334 •	GERDING FRED E.	01NOV93	0485		Y
CUMBERLA	TN	94BLA01911	SPURRIER JACK D.	06SEP94	0176		-
DAVIDSON	TN	94BLA00742	THOMAS CREED	15FEB94	0379		-
MARION	TN	94BLA01185 •	KILGORE HARDY	22APR94	0313		Y
SUMNER	TN	94BLA01912	AKERS MINUS	06SEP94	0176		-
DALLAS	TX	94BLA01821	ALLISON ROBERT	19AUG94	0194		-
HIDALGO	TX	94BLA00524 •	WEBER WILLARD L.	29DEC93	0427	26JUN95	-
CARBON	UT	92BLA01807	HUNTER CHARLES R	24SEP92	0888		-
CARBON	UT	92BLA01069 •	SANICH ESTHER	22OCT90	1591		-
BUCHANAN	VA	91BLA01766 •	JUSTICE JIMMY W.	26MAR91	1436	14AUG95	-
BUCHANAN	VA	94BLA01158 •	HENSLEY WILLIAM	28APR94	0307		-
BUCHANAN	VA	94BLA01739 •	HARRIS LARRY	05AUG94	0208		-
CAMPBELL	VA	93BLA00403 •	SHELTON BOBBY R.	22DEC92	0799	21MAR95	-
DICKENSO	VA	94BLA01987 •	ROKNICH MIKE	16SEP94	0166	22FEB95	-
FRANKLIN	VA	93BLA00886 •	WILLIAMS DAVID L	24MAR93	0707		-
HARRISON	VA	94BLA01738	STURDIVANT SIDNE	05AUG94	0208	23MAR95	-
HENRY	VA	93BLA00128 •	BLEVINS SAMMY	28OCT92	0854	22MAR95	-
LEE	VA	94BLA01635 •	EDENS HAROLD	19JUL94	0225		-
LEE	VA	91BLA01767 •	COCHRAN FRANKLIN	26MAR91	1436		-
LEE	VA	93BLA01814 •	WILLIAMS RUFUS E	13SEP93	0534	05JUN95	-
MONTGOME	VA	94BLA00941 •	SHEPPARD ELBERT	18MAR94	0348	21MAR95	-
MONTGOME	VA	94BLA01827 •	LINKOUS EDGAR R.	22AUG94	0191	21MAR95	-
PR.GEORG	VA	91BLA02031 •	STACY JAMES L.	07MAY91	1394		-
RADFORD	VA	93BLO00062 •	COMPTON MASON	18JUN93	0621	22MAR95	-
RUSSELL	VA	94BLA01717 •	HORTON PAUL	09AUG94	0204		-
SALEM	VA	93BLA01335 •	CROWDER EDWARD E	18JUN93	0621	21MAR95	-
SHENANDO	VA	93BLA00248 •	CASTEEL STANLEY	23NOV92	0828		-
SPOTSYLV	VA	94BLA01686	GEGOR ANDREW	29JUL94	0215	23MAR95	-
ST.CHARL	VA	94BLA01233	COEBURN JAMES O.	06MAY94	0299		-
TAZEWELL	VA	92BLA00006 •	MULLINS E.L. SWA	04OCT91	1244		-
WESTCHES	VA	93BLA00874 •	FERGUSON GEORGE	16MAR93	0715		-
WYTHG	VA	93BLA01121 •	WHITT FLOYD D	10MAY93	0660	21MAR95	-
FAYETTE	WV	94BLA02017 •	JONES LEWIS	20SEP94	0162	25MAY95	-

CLAIMANT COUNTY	ST	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
GREENBRI	WV	94BLA00067 •	COUNTS BALLARD	15OCT93	0502		-
LINCOLN	WV	94BLA01913 •	THOMPSON ROBERT	07SEP94	0175	05JUN95	-
LOGAN	WV	94BLA01649 •	WELLS CHARLES B.	18JUL94	0226	21APR95	-
LOGAN	WV	93BLA01073 •	GARTIN LUTHER W.	26APR93	0674		Y
MARION	WV	94BLA00453 •	WILSON DAVID H.,	14DEC93	0442	08JUN95	-
MCDOWELL	WV	94BLA01372	SPARKS TROY	08JUN94	0266	12JUN95	-
MCDOWELL	WV	94BLA01732	BLANKENSHIP JOE	12AUG94	0201	12JUN95	-
MCDOWELL	WV	94BLA00927 •	CARTWRIGHT AUBRE	17MAR94	0349		-
MCDOWELL	WV	94BLA02013	MAXWELL KENNETH	20SEP94	0162	12JUN95	-
MCDOWELL	WV	94BLA01414	HUGHES BILLY A.	08JUN94	0266	12JUN95	Y
MCDOWELL	WV	93BLA01773	TRENT DEWEY JR.	31AUG93	0547	12JUN95	-
MCDOWELL	WV	94BLA01537	STILTNER LEWIS,	24JUN94	0250	12JUN95	Y
MCDOWELL	WV	93BLA01569	CHURCH FRANKLIN	30JUL93	0579		-
MERCER	WV	94BLA01969	ADAMS FRANKIE	14SEP94	0168	12JUN95	-
MINGO	WV	93BLA01497 •	CATHER LESTER	19JUL93	0590		-
MINGO	WV	93BLA01676 •	MOUNTS BILLY B.	16AUG93	0562	05JUN95	-
MONOGALI	WV	94BLA00656 •	RICHARD WILLIAM	21JAN94	0404		Y
MONONGAL	WV	94BLA00379 •	THOMAS GEORGE	01DEC93	0455	09JUN95	-
PRESTON	WV	94BLA02056 •	FRIEND LEROY J.	28SEP94	0154	08JUN95	-
PRESTON	WV	94BLA01689 •	KIRK ROBERT L.	12JUL94	0232		-
RALEIGH	WV	94BLA01914 •	RICHMOND FRED R.	07SEP94	0175		-
RALEIGH	WV	94BLA01592 •	SHREWSBURY DAVID	12JUL94	0232	24MAY95	-
RALEIGH	WV	94BLA00838 •	WOOD ROGER D., SR	01MAR94	0365	24MAY95	-
RALEIGH	WV	94BLA01887 •	JONES ACIE R.	12AUG94	0201	22MAY95	Y
TAYLOR	WV	94BLA02021 •	SMITH DAVY L.	22SEP94	0160	09JUN95	-
WEBSTER	WV	94BLA01438 •	SKIDMORE VIRGINI	09MAR94	0357		-
WYOMING	WV	90BLA02167 •	PHILLIPS EARL D	10JUL90	1695	25MAY95	Y
GOSHEN	WY	93BLA01586	HENSLEY JACK W	16SEP93	0531		Y
SWEET-WA	WY	94BLA01431	SHUSTER JOHN M.	14JUN94	0260		-
SWEETWAT	WY	94BLA00265	BOZNER JOSEPH	08NOV93	0478		-
SWEETWAT	WY	94BLA01680	KAUL FLOYD, JR.	28JUL94	0216		-
SWEETWAT	WY	93BLA01893	MITCHELSON JACK	28SEP93	0519		-

BLACK LUNG CASES PENDING LESS THAN 150 DAYS

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
AL	BLOUNT	95BLA00613	PLYLER JAMES D.	10JAN95	0050		-
AL	BLOUNT	95BLA00584	TULIN GENE E.	17JAN95	0043		-
AL	GREENE	95BLA00368	JOHNSON CLEVELAN	28NOV94	0093	05JUN95	Y
AL	JEFF	95BLA00458	ELLIOTT TWILLIE	16DEC94	0075	05JUN95	-
AL	JEFFERSO	95BLA01002	SELLERS S.B.	17FEB95	0012	05JUN95	Y
AL	JEFFERSO	95BLA00585	CAFFEE GERALD F.	17JAN95	0043	05JUN95	-
AL	JEFFERSO	95BLA00639	EDENBURGH WILLIE	06JAN95	0054	05JUN95	Y
AL	JEFFERSO	95BLA00280	FELTMAN WILLARD	18NOV94	0103	05JUN95	-
AL	JEFFERSO	95BLA00900	GLOBETTI BRUNO	13FEB95	0016	05JUN95	-
AL	JEFFERSO	95BLA00363	BOYKIN OSCAR W.	21NOV94	0100	05JUN95	Y
AL	JEFFERSO	95BLA00802	WILLIAMS RILEY	23JAN95	0037	05JUN95	Y
AL	JEFFERSO	95BLA00411	DAVIDSON PERCY	09DEC94	0082	05JUN95	-
AL	TUSCAFOO	95BLA00025	HENLEY DONALD R.	04OCT94	0148	05JUN95	-
AL	TUSCALOO	95BLA00640	HALLMAN BILLY	06JAN95	0054		-
AL	WALKER	95BLA01000	LIVINGSTON JONAS	14FEB95	0015	05JUN95	Y
AL	WALKER	95BLA00271	SANFORD ALONZO	15NOV94	0106	05JUN95	-
AL	WALKER	95BLA00429	HUDSON LEO	13DEC94	0078	05JUN95	-
AL	WALKER	95BLA01008	SLOAN GURSTLE L.	28FEB95	0001	05JUN95	Y
AL	WALKER	95BLA00586	HAYGOOD DOCK	17JAN95	0043	05JUN95	-
AL	WALKER	95BLA00321	ODOM ARNOLD	28NOV94	0093	05JUN95	-
AL	WALKER	95BLA00572	MCGINNIS CHARLES	21DEC94	0070	05JUN95	-
AL	WALKER	95BLA00831	KILGORE JERRY W.	01FEB95	0028	05JUN95	-
AL	WALKER	95BLA00420	WILLIAMS CURTIS	09DEC94	0082	05JUN95	Y
AL	WALKER	95BLA00240	ATKINS HERBERT	08NOV94	0113	05JUN95	-
CA	LOS ANGE	95BLA00847	BORDERS THEODORE	07FEB95	0022		-
CO	CONEJOS	95BLA00004	STEPHENSON JOHN	03OCT94	0149		-
CO	LAS ANIM	95BLA00846	SMITH CLIFFORD	07FEB95	0022		-
FL	LEE	95BLA00070	CRESS JEWELL A.	11OCT94	0141	05JUN95	Y
FL	ORANGE	95BLA00150	HART ERVIN H.	24OCT94	0128	04JUN95	-
FL	PUTNAM	95BLA00592	GEARY KENNETH R.	17JAN95	0043	04JUN95	-
IA	APPANOOS	95BLA00172	PHILBY EMMETT	01NOV94	0120	10JUL95	-
IL	COOK	95BLA00885	WILSON HILLIARD	14FEB95	0015		-
IL	COOK	95BLA00811	FUGATE WILLARD	24JAN95	0036		-
IL	JACKSON	95BLA00886	CHANEY JARRELL E	14FEB95	0015		-
IL	JACKSON	95BLA00472	SKELTON EUGENE	20DEC94	0071		-

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ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
IL	PUTNAM ,	95BLA00290	ORLANDI DENO	22NOV94	0099	10JUL95	-
IL	RANDOLPH	95BLA00634	BARTON FRANKLIN	05JAN95	0055		-
IL	SALINE	95BLA00878	HOWERTON LOREN R	14FEB95	0015		-
IL	WABASH	95BLA00199	SISSON LEROY	02NOV94	0119		-
IN	BONNVILL	95BLA00751	JARVIS GROVER	31JAN95	0029		-
IN	CLAY	95BLA00884	PHILLIPS WILLIAM	14FEB95	0015		-
IN	CLAY	95BLA00833	SCOTT SHERMAN	07FEB95	0022		-
IN	GIBSON	95BLA00035	JONES HERSCHEL	05OCT94	0147		-
IN	GIBSON	95BLA00201	GOWEN JAMES	02NOV94	0119		-
IN	GIBSON	95BLA00146	LEE ALVA D.	25OCT94	0127		-
IN	MARION	95BLA00939	FIELDS DENNIE	22FEB95	0007		-
IN	MIAMI	95BLA00322	HOLDEN SANFORD T	28NOV94	0093		-
IN	PIKE	95BLA00882	GROSS CRILLIS	14FEB95	0015		-
IN	PIKE	95BLA00246	HANKS JACK	08NOV94	0113		-
IN	PORTER	95BLA00430	SLUSHER EARL	13DEC94	0078		-
IN	SULLIVAN	95BLA00540	LUCAS JOHN P.	28DEC94	0063		-
IN	VERMILLI	95BLA00834	HAWKER WILLIAM E	07FEB95	0022		-
IN	VERMILLI	95BLA00245	FINGER ROBERT	08NOV94	0113		-
IN	VERMILLI	95BLA00285	JONES ERNEST K.	22NOV94	0099		-
IN	VIGO	94BLA00081	WHEAT WILLIAM E.	14OCT94	0138	26APR95	-
IN	WABASH	95BLA00289	BURKE ESTILL	22NOV94	0099	15JUN95	-
IN	WABASH	95BLA00433	MAGGARD CHARLIE	13DEC94	0078	15JUN95	-
IN	WARRICK	95BLA00268	CONNER HOWARD	15NOV94	0106		-
IN	WARRICK	95BLA00661	ELZER LEROY	17JAN95	0043		-
KY	BELL	95BLA00607	FUSON MARY L.	10JAN95	0050		-
KY	BELL	95BLA00490	GAMBRELL JIMMIE	20DEC94	0071		-
KY	BELL	95BLA00994	AKER ROBERT	28FEB95	0001		-
KY	BELL	95BLA00842	HAMPTON HOMER	03FEB95	0026		-
KY	BELL	95BLA00982	HIGGINBOTHAM CLA	28FEB95	0001		-
KY	BELL	95BLA00477	LAWSON DAVID L.	20DEC94	0071		-
KY	BELL	95BLA00601	ASHER EARL E.	10JAN95	0050		-
KY	BELL	95BLA00492	KNUCKLES MILLARD	20DEC94	0071		-
KY	BELL	95BLA00870	HUNLEY JERRY	15FEB95	0014		-
KY	BELL	95BLA00603	LAWSON DONALD	10JAN95	0050		-
KY	BREATHIT	95BLA00854	HERALD LUTHER	07FEB95	0022		-
KY	BREATHIT	95BLA00659	SALYERS TOM	17JAN95	0043	05JUN95	-
KY	BREATHIT	95BLA00330	LITTLE TOM	28NOV94	0093		-
KY	BREATHIT	95BLA00101	MILLER JERRY	18OCT94	0134		-
KY	BREATHIT	95BLA00956	MCKNIGHT EAF	23FEB95	0006		-
KY	BREATHIT	95BLA00686	NEACE WILLIAM	20JAN95	0040		-
KY	BREATHIT	95BLA00637	THOMPSON WALTER,	06JAN95	0054		-
KY	BULLITT	95BLA00475	MAYES JERRY L.	20DEC94	0071		-
KY	BUTLER	95BLA00991	KEOWN LUCHEN,JR.	28FEB95	0001		-
KY	CALDWELL	95BLA00602	LAFFOON RICHARD	10JAN95	0050		-
KY	CAMPBELL	95BLA00302	JOHNSON AMERIDA	22NOV94	0099		-
KY	CLAY	95BLA00916	BOWLING COY W.	17FEB95	0012		-
KY	CLAY	95BLA00557	FIELDS ROGER D.	22DEC94	0069		-
KY	CLAY	95BLA00491	HERD LLOYD	20DEC94	0071		-
KY	CLAY	95BLA00980	SIZEMORE JOE	28FEB95	0001		-
KY	CLAY	95BLA00677	GIBSON BILL	12JAN95	0048		-
KY	CLAY	95BLA00479	HARRIS CHARLES	20DEC94	0071		-
KY	CLAY	95BLA00992	MILLS CECIL	28FEB95	0001		-
KY	CLAY	95BLA00300	LAWSON LUTHER	22NOV94	0099		-
KY	CLAY	95BLA00305	GREGORY RAY	22NOV94	0099		-
KY	CLAY	95BLA00638	WOODS WADE	06JAN95	0054		-
KY	CLAY	95BLA00995	JONES MARNA D.	28FEB95	0001		-
KY	CLAY	95BLA00971	ROBERTS JIMMY	15FEB95	0014		-
KY	FLOYD	95BLA00704	STRATTON MARVIN	18JAN95	0042		-
KY	FLOYD	95BLA00011	HACKWORTH RUSSEL	03OCT94	0149		-
KY	FLOYD	95BLA00901	POWERS PALMER	13FEB95	0016		-
KY	FLOYD	95BLA00039	BLAIR EDISON	11OCT94	0141		-
KY	FLOYD	95BLA00711	AKERS KENNETH M.	18JAN95	0042	06JUN95	-
KY	FLOYD	95BLA00212	GARRETT JOE H.	03NOV94	0118	07JUN95	-
KY	FLOYD	95BLA00496	HARRIS ROBERT	20DEC94	0071	06JUN95	-
KY	FLOYD	95BLA00077	GOBLE JEFF A.	13OCT94	0139		-
KY	FLOYD	95BLA00006	STEPHENS ANDREW	03OCT94	0149		-
KY	FLOYD	95BLA00525	TURNER FREDDIE	28DEC94	0063		-
KY	FLOYD	95BLA00304	HALL CARLOS J	22NOV94	0099	09JUN95	-
KY	FLOYD	95BLA00576	REID CHARLES C.	12JAN95	0048	07JUN95	-
KY	FLOYD	95BLA00655	CLICK MELVIN,JR.	05JAN95	0055	08JUN95	-
KY	FLOYD	95BLA00674	MITCHELL SANDY	12JAN95	0048	07JUN95	-

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
KY	FLOYD	95BLA00652	COOLEY IRISH	05JAN95	0055	07JUN95	-
KY	FLOYD	95BLA00531	HAYES JAMES B.	22DEC94	0069	07JUN95	-
KY	FLOYD	95BLA00376	HALL EARL	05DEC94	0086	06JUN95	-
KY	FLOYD	95BLA00621	HAMILTON RAY,JR.	05JAN95	0055	06JUN95	-
KY	FLOYD	95BLA00526	ISAAC DOY, JR.	28DEC94	0063		-
KY	FLOYD	95BLA00013	BLANKENSHIP CHAR	03OCT94	0149		-
KY	FLOYD	95BLA00920	ALLEN CHARLES	17FEB95	0012		-
KY	FLOYD	95BLA00296	GARRETT WONNIE	22NOV94	0099	07JUN95	-
KY	GALLATIN	95BLA00970	SWANGIN HILLARD	28FEB95	0001		-
KY	GALLOWAY	95BLA00706	JOHNSON JEWELL M	18JAN95	0042		-
KY	GREENUP	95BLA00965	SPENCE MELVIN	23FEB95	0006		-
KY	HARLAN	95BLA00476	SAYLOR PEARL	20DEC94	0071		-
KY	HARLAN	95BLA00907	WARREN HERMAN	13FEB95	0016		-
KY	HARLAN	95BLA00629	NOLAN RONALD	05JAN95	0055		-
KY	HARLAN	95BLA00627	MIDDLETON JAMES	05JAN95	0055		-
KY	HARLAN	95BLA00618	PERRY HUBERT	05JAN95	0055		-
KY	HARLAN	95BLA00869	SMITH GLEN	15FEB95	0014		-
KY	HARLAN	95BLA00918	JOHNSON HERBERT	17FEB95	0012		-
KY	HARLAN	95BLA00628	BOGGS RONALD	05JAN95	0055		-
KY	HARLAN	95BLA00488	HUFF ROCKY D.	20DEC94	0071		-
KY	HARLAN	95BLA00959	KELLY ROGER	23FEB95	0006		-
KY	HARLAN	95BLA00709	HATFIELD RONDALL	18JAN95	0042		-
KY	HARLAN	95BLA00374	WILLIAMS FREDDIE	05DEC94	0086		-
KY	HARLAN	95BLA00779	HALL FRED	27JAN95	0033		-
KY	HENDERSO	95BLA00523	GREEN ERNEST	28DEC94	0063		-
KY	HOPKINS	95BLA00549	CORBITT J.H.	22DEC94	0069		-
KY	HOPKINS	95BLA00968	BELL PARVIN W.	23FEB95	0006		-
KY	HOPKINS	95BLA00631	GILKEY LARRY	05JAN95	0055		-
KY	JOHNSON	95BLA00908	PALMER JOHN C.	13FEB95	0016		-
KY	JOHNSON	95BLA00254	WELLS VERNON	10NOV94	0111		-
KY	JOHNSON	95BLA00036	CANTRILL OTTIS	11OCT94	0141		-
KY	JOHNSON	95BLA00356	CASTLE BOBBY F.	28NOV94	0093	09JUN95	-
KY	JOHNSON	95BLA00445	LAFFERY WILLIAM	15DEC94	0076	08JUN95	-
KY	KENTON	95BLA00657	HENSLEY HARLEY	17JAN95	0043		-
KY	KNOTT	95BLA00778	SMITH WILLIE	27JAN95	0033		-
KY	KNOTT	95BLA00782	DUNCIL EARL C.	27JAN95	0033		-
KY	KNOTT	95BLA00760	AMBURGEY BENJAMI	25JAN95	0035		-
KY	KNOTT	95BLA00562	HUDSON ELMER	28DEC94	0063	08JUN95	-
KY	KNOTT	95BLA00985	SMITH ROBERT, JR	28FEB95	0001		-
KY	KNOX	95BLA00620	ELLIOTT CLAUDE	05JAN95	0055		-
KY	KNOX	95BLA00623	JONES ELLIS	05JAN95	0055		-
KY	KNOX	95BLA00874	WREN KENNETH	15FEB95	0014		-
KY	KNOX	95BLA00175	SMITH ELISHA	01NOV94	0120		-
KY	KNOX	95BLA00758	HELTON ARGENUS	25JAN95	0035		-
KY	KNOX	95BLA00671	SMITH WILLIAM,JR	12JAN95	0048		-
KY	KNOX	95BLA00301	HIGGINS JOHN W.	22NOV94	0099		-
KY	KNOX	95BLA00565	LAKE ARVIL	28DEC94	0063		-
KY	KNOX	95BLA00990	MCKEEHAN KORMAN	28FEB95	0001		-
KY	LAUREL	95BLA00904	LUNSFORD ROLLEN	13FEB95	0016		-
KY	LAUREL	95BLA00690	STACY HERMAN	20JAN95	0040		-
KY	LAUREL	95BLA00537	WAGERS WILLIE	22DEC94	0069		-
KY	LAUREL	95BLA00262	BRUNER FRANK	10NOV94	0111		-
KY	LAUREL	95BLA00983	HOLLAND JAMES F.	28FEB95	0001		-
KY	LAUREL	95BLA00947	SALYERS CRAWFORD	23FEB95	0006		-
KY	LAUREL	95BLA00656	WILLIAMS FRANK	05JAN95	0055		-
KY	LAUREL	95BLA00566	JONES COBIE	28DEC94	0063		-
KY	LAUREL	95BLA00017	MOORE BURGESS	03OCT94	0149		-
KY	LAUREL	95BLA00981	LEWIS THEO	28FEB95	0001		-
KY	LAUREL	95BLA00806	BROWN CHARLIE	28DEC94	0063		Y
KY	LAWRENCE	95BLA00176	RAINES JOHN	01NOV94	0120		-
KY	LAWRENCE	95BLA00303	NOEL EMORY R.,JR	22NOV94	0099	08JUN95	-
KY	LEE	95BLA00527	WILDER DARRELL	28DEC94	0063		-
KY	LESLIE	95BLA00650	OSBORNE SHERIDAN	05JAN95	0055		-
KY	LESLIE	95BLA00551	MORGAN WALTER	22DEC94	0069	08JUN95	-
KY	LESLIE	95BLA00903	LEWIS FELIX	13FEB95	0016		-
KY	LESLIE	95BLA00966	ROBERTS GUY	23FEB95	0006		-
KY	LESLIE	95BLA00673	BURNS BIGE	12JAN95	0048	07JUN95	-
KY	LESLIE	95BLA00672	FIELDS GILLIS,JR	12JAN95	0048		-
KY	LESLIE	95BLA00619	BURNS GILLIS	05JAN95	0055		-
KY	LESLIE	95BLA00622	MORGAN JOE	05JAN95	0055		-
KY	LESLIE	95BLA00984	MAGGARD CLARENCE	28FEB95	0001		-
KY	LESLIE	95BLA00905	NOLAN LESTER	13FEB95	0016		-
KY	LESLIE	95BLA00922	LEWIS JOHN L.	17FEB95	0012		-
KY	LESLIE	95BLA00873	CLARK JERRY R.	15FEB95	0014		-
KY	LESLIE	95BLA00499	MORGAN WILLIE	20DEC94	0071	07JUN95	-

BEST COPY AVAILABLE

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
KY	LESLIE	95BLA00606	HACKER RUSSELL	10JAN95	0050		-
KY	LESLIE	95BLA00989	COLLETT LARRY	28FEB95	0001		-
KY	LESLIE	95BLA00996	STIDHAM LENVEL	28FEB95	0001		-
KY	LESLIE	95BLA00949	ADAMS RALEIGH	23FEB95	0006		-
KY	LETCHER	95BLA00561	ANDERSON RUBY L.	28DEC94	0063	07JUN95	-
KY	LETCHER	95BLA00564	BLAIR GIDEON D.	28DEC94	0063	09JUN95	-
KY	LETCHER	95BLA00560	STURGILL SILAS	28DEC94	0063	06JUN95	-
KY	LETCHER	95BLA00759	PUGH JOHNNY	25JAN95	0035		-
KY	LETCHER	95BLA00850	WATTS ALBEN B.	07FEB95	0022		-
KY	LETCHER	95BLA00675	COLLIER BILLY	12JAN95	0048		-
KY	LETCHER	95BLA00658	ISON IRVIN	17JAN95	0043	05JUN95	-
KY	LETCHER	95BLA00841	CAUDILL JOHNNY D	03FEB95	0026		-
KY	LETCHER	95BLA00685	COOK LOUIS	20JAN95	0040		-
KY	LETCHER	95BLA00872	POLLY BILLY	15FEB95	0014		-
KY	LETCHER	95BLA00599	STEWART DUDLEY	10JAN95	0050		-
KY	LETCHER	95BLA00688	TOLSON HUBERT	20JAN95	0040		-
KY	LETCHER	95BLA00443	SLONE FRED	13DEC94	0078	06JUN95	-
KY	LETCHER	95BLA00478	CORNETT WILLIAM	20DEC94	0071	08JUN95	-
KY	LETCHER	95BLA00555	SPARKMAN PAUL	22DEC94	0069	08JUN95	-
KY	LETCHER	95BLA00962	REED JAMES	23FEB95	0006		-
KY	LETCHER	95BLA00550	SHEPHERD CASTEL	22DEC94	0069	05JUN95	-
KY	LETCHER	95BLA00352	ISON CHARLES O.	28NOV94	0093		-
KY	LETCHER	95BLA00442	ELSWICK BLUFORD	13DEC94	0078	09JUN95	-
KY	MAGOFFIN	95BLA00057	BRYANT RAY C.	11OCT94	0141		-
KY	MAGOFFIN	95BLA00292	FLETCHER DANNY	22NOV94	0099		-
KY	MAGOFFIN	95BLA00708	MONTGOMERY BUBBY	18JAN95	0042		-
KY	MAGOFFIN	95BLA00524	WIREMAN BOBBY	28DEC94	0063	08JUN95	-
KY	MAGOFFIN	95BLA00909	ARCHER WALTER	13FEB95	0016		-
KY	MARTIN	95BLA00536	BLEVINS GLEN	22DEC94	0069		-
KY	MARTIN	95BLA00535	CHAPMAN JOHN C.	22DEC94	0069	08JUN95	-
KY	MARTIN	95BLA00988	FRALEY C.W.	28FEB95	0001		-
KY	MARTIN	95BLA00261	JARRELL FRANK M.	10NOV94	0111		-
KY	MARTIN	95BLA00078	BOOTH LUTHER	13OCT94	0139		-
KY	MARTIN	95BLA00441	VANOVER WILLIAM	13DEC94	0078		-
KY	MARTIN	95BLA00224	GAMBLE OSSIE E.	04NOV94	0117		-
KY	MARTIN	95BLA00556	JUDE ELIJAH	22DEC94	0069		-
KY	MARTIN	95BLA00993	STEPP JOHN B.	28FEB95	0001		-
KY	MARTIN	95BLA00844	ALLEN BEN, JR.	03FEB95	0026		-
KY	MCCREARY	95BLA00181	COFFEY WOODROW	01NOV94	0120		-
KY	MCCREARY	95BLA00495	TAYLOR CALVIN	20DEC94	0071		-
KY	MORGAN	95BLA00005	PENNINGTON PAUL	03OCT94	0149		-
KY	MORGAN	95BLA00960	BROWN WILLIAM K.	23FEB95	0006		-
KY	MUHLENBE	95BLA00851	WILLIAMS W.C.	07FEB95	0022		-
KY	MUHLENBE	95BLA00669	WELLS BENTON	12JAN95	0048		-
KY	MUHLENBE	95BLA00919	STUART JAMES H.	17FEB95	0012		-
KY	MUHLENBU	95BLA00963	GRACE JAMES W.	23FEB95	0006		-
KY	PERRY	95BLA00710	FIELDS BRUCE	18JAN95	0042		-
KY	PERRY	95BLA00533	LAWSON HERSHEL	22DEC94	0069	06JUN95	-
KY	PERRY	95BLA00649	BAKER BERT	05JAN95	0055		-
KY	PERRY	95BLA00648	NEACE WILLIS R.	05JAN95	0055		-
KY	PERRY	95BLA00563	CAMPBELL WAYNE	28DEC94	0063	08JUN95	-
KY	PERRY	95BLA00705	WATTS RONNIE	18JAN95	0042		-
KY	PERRY	95BLA00676	JOHNSON WILGUS	12JAN95	0048		-
KY	PERRY	95BLA00489	ESTEP JAMES	20DEC94	0071	06JUN95	-
KY	PERRY	95BLA00786	HOLCOMB FESS	25JAN95	0035		-
KY	PERRY	95BLA00687	COLLINS WALKER	20JAN95	0040		-
KY	PERRY	95BLA00654	MILLER JOHN,JR.	05JAN95	0055		-
KY	PERRY	95BLA00784	MILLER CLIFFORD	27JAN95	0033		-
KY	PERRY	95BLA00228	MORTON RANDALL	04NOV94	0117		-
KY	PERRY	95BLA00780	FULTZ EVERETT	27JAN95	0033		-
KY	PIKE	95BLA00843	BARTLEY HOMER	03FEB95	0026		-
KY	PIKE	95BLA01006	AKERS CHARLIE	23FEB95	0006		Y
KY	PIKE	95BLA00497	MULLINS JERRY	20DEC94	0071		-
KY	PIKE	95BLA00059	YOUNG BUDDY	11OCT94	0141		-
KY	PIKE	95BLA00498	BOWERSOCK EDWARD	20DEC94	0071		-
KY	PIKE	95BLA00636	RATLIFF BILLY	06JAN95	0054		-
KY	PIKE	95BLA00440	KERR JAMES	13DEC94	0078		-
KY	PIKE	95BLA00670	DUTTON RADFORD	12JAN95	0048		-
KY	PIKE	95BLA00964	HATFIELD EVERETT	28FEB95	0001		-
KY	PIKE	95BLA00447	ADKINS ABRAM	14DEC94	0077		-
KY	PIKE	95BLO00015	WELLMAN EARL	23FEB95	0006		-
KY	PIKE	95BLA00967	COLEMAN RALPH	23FEB95	0006		-
KY	PIKE	95BLA00853	HALL BURLEAN	07FEB95	0022		-
KY	PIKE	95BLA00961	ABSHIRE ALBERT T	23FEB95	0006		-
KY	PIKE	95BLA00647	MCCOY WILLIAM	05JAN95	0055		-
KY	PIKE	95BLA00494	WILLIAMSON JOE	20DEC94	0071		-

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
KY	PIKE	95BLA00651	ANDERSON HOWARD,	05JAN95	0055		-
KY	PIKE	95BLA00762	RATLIFF TEDDY,JR	25JAN95	0035		-
KY	PIKE	95BLA00653	MAY ALLEN	05JAN95	0055		-
KY	PIKE	95BLA00855	ELKINS WILLIE	07FEB95	0022		-
KY	PIKE	95BLA00559	WEDDINGTON WALTE	28DEC94	0063		-
KY	PIKE	95BLA00987	CASEY MILES M.	28FEB95	0001		-
KY	PIKE	95BLA00902	WRIGHT JOHNNY	13FEB95	0016		-
KY	PIKE	95BLA00691	OWENS JIMMY	20JAN95	0040		-
KY	PIKE	95BLA00371	CHAPMAN DON	05DEC94	0086		-
KY	PIKE	95BLA00598	JOHNSON HAYES	10JAN95	0050		-
KY	PIKE	95BLA00604	RATLIFF RAY	10JAN95	0050		-
KY	PIKE	95BLA00630	CHANEY RONALD K.	05JAN95	0055		-
KY	PIKE	95BLA00373	CANTRELL MACK	05DEC94	0086		-
KY	PIKE	95BLA00917	PINSON CURTIS A.	17FEB95	0012		-
KY	PIKE	95BLA00689	SCALF OLIVER	20JAN95	0040		-
KY	PIKE	95BLA00553	BARTLEY ROBERT W	22DEC94	0069		-
KY	PIKE	95BLA00554	HYLTON BILLY R.	22DEC94	0069		-
KY	PIKE	95BLA00558	VARNEY EMERY	28DEC94	0063		-
KY	PIKE	95BLA00552	STILTNER ROBERT	22DEC94	0069		-
KY	PIKE	95BLA00906	HALL JOE	13FEB95	0016		-
KY	PIKE	95BLA00578	RATLIFF JERRY	12JAN95	0048		-
KY	PIKE	95BLA00548	ADAMS ERMAL	22DEC94	0069		-
KY	PIKE	95BLA00605	PRATER ARTHUR	10JAN95	0050		-
KY	PIKE	95BLA00600	NEWSOM DELANEY	10JAN95	0050		-
KY	PIKE	95BLA00624	MULLINS DIAL	05JAN95	0055		-
KY	PIKE	95BLA00948	NEWSOME DLEBERT	23FEB95	0006		-
KY	PIKE	95BLA00534	COLEMAN RICHARD	22DEC94	0069		-
KY	PIKE	95BLA00625	HURLEY DARRYEL	05JAN95	0055		-
KY	PIKE	95BLA00626	ADKINS EDWARD	05JAN95	0055		-
KY	PIKE	95BLA00781	HURLEY GREGORY J	27JAN95	0033		-
KY	PIKE	95BLA00958	KENDRICK HASSEL	23FEB95	0006		-
KY	PIKE	95BLA00921	CHAPMAN GARY D.	17FEB95	0012		-
KY	PIKE	95BLA00783	ROWE WILLIAM,JR	27JAN95	0033		-
KY	PIKE	95BLA00532	RICHARDSON WILLI	22DEC94	0069		-
KY	PIKE	95BLA00986	ANDERSON LUTHER	28FEB95	0001		-
KY	PIKE	95BLA00875	CLEVENGER DONALD	15FEB95	0014		-
KY	PULASKI	95BLA00226	BROCK DANIEL B.	04NOV94	0117		-
KY	PULASKI	95BLA00577	COLLINS MARSHALL	12JAN95	0048		-
KY	UNION	95BLA00707	DEIBLER HAROLD J	18JAN95	0042		-
KY	WHITLEY	95BLA00258	SOWDER JAMES E.	10NOV94	0111		-
KY	WHITLEY	95BLA00295	PARTIN HUSTIN	22NOV94	0099		-
KY	WOLFE	95BLA00684	BAKER CHARLIE	20JAN95	0040		-
MA	HAMDEN	95BLA00107	HENRY WASHINGTON	21OCT94	0131		-
MD	ALLEGANY	95BLA00801	PHILLIPS MELVIN	23JAN95	0037		Y
MI	GENESSE	95BLA00887	EAGLE DONNIE	14FEB95	0015	12JUN95	-
MI	MACOMB	95BLA00402	ALDRIDGE JAMES	07DEC94	0084	12JUN95	-
MI	OAKLAND	95BLA00399	PUGH CREADEL	07DEC94	0084	12JUN95	-
MI	WAYNE	95BLA00538	IVEY EUGENE	28DEC94	0063	12JUN95	-
MI	WAYNE	95BLA00431	MEADE WILLIAM	13DEC94	0078	12JUN95	-
MI	WAYNE	95BLA00432	GAFNEY SIMON	13DEC94	0078	12JUN95	-
MI	WAYNE	95BLA00203	HOLMES JAMES	02NOV94	0119	05JUN95	-
MO	JOHNSON	95BLA00348	POTTER GEORGE	28NOV94	0093		-
NC	CUMBERLA	95BLA00579	WOLFORD CARL T.	13JAN95	0047	10JUL95	-
ND	MERCER	95BLA00003	SCHUTT BENEDICT	03OCT94	0149		-
NJ	GLOUCEST	95BLA00544	PAPPERT FRANCIS	29DEC94	0062		-
NM	BERNALIL	95BLA00848	TAFOYA FELIPE	07FEB95	0022		-
NM	COLFAX	95BLA00021	BUTCH JAMES	04OCT94	0148		-
NM	COLFAX	95BLA00349	CORTEZ FRANK	28NOV94	0093		-
NM	SANDOVAL	95BLO00012	BATES GAIL	14FEB95	0015		-
NY	MONROE	95BLA00546	PERKINS WILLIAM	28DEC94	0063		-
NY	WAYNE	95BLA00381	JACKSON WILLIAM	05DEC94	0086		-
OH	ATHENS	95BLA00881	MCCULLOUGH DONAL	14FEB95	0015		-
OH	BELMONT	95BLA00800	DICKSON HOWARD,J	24JAN95	0036		-
OH	BUTLER	95BLA00539	JOHNSON KENNETH	28DEC94	0063		-
OH	COLUMBIA	95BLA00752	WITHEROW PAUL S	31JAN95	0029		-
OH	FRANKLIN	95BLA00998	MARTIN JOHN A.	10FEB95	0019		Y
OH	GALLIA	95BLA00883	VARNEY HAZERT	14FEB95	0015		-
OH	HARRISON	95BLA00147	BAKER HAROLD	25OCT94	0127	07APR95	-
OH	HENRY	95BLA00583	STEWART ELMER	10JAN95	0050		-
OH	HURON	95BLA00747	HILL WOLFORD	31JAN95	0029		-
OH	JACKSON	95BLA00888	ARGABRIGHT MARTI	14FEB95	0015		-
OH	JACKSON	95BLA00473	FULTON CLAUDE	20DEC94	0071		-
OH	LICKING	95BLA00832	WATERS JAMES	07FEB95	0022		-
OH	PERRY	95BLA00835	SHUMAKER GEORGE	07FEB95	0022		-
OH	RICHLAND	95BLA00288	MILLS DELBERT	22NOV94	0099		-
OH	RICHLAND	95BLA00400	MAHON VAN BUREN	07DEC94	0084		-

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ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
OH	TRUMBULL	95BLA00582	LONG ROBERT P.	10JAN95	0050		-
OH	TUSCARAW	95BLO00005	GARBRANDT RUSSEL	22NOV94	0099		-
OH	UNION	95BLA00247	JONES CHARLES	08NOV94	0113		-
OK	LEFLORE	95BLA00171	CARPENTER RICHAR	01NOV94	0120		-
OK	POTTAWAT	95BLA00972	GREEN JOHN L.	28FEB95	0001		-
PA	ALLEGHEN	95BLA00871	MOSKALA LUDWIK	21FEB95	0008		Y
PA	ALLEGHEN	95BLA00768	BOZOVICHER ED	23JAN95	0037	08JUN95	-
PA	CAMBRIA	95BLA00864	STRAPEL JAMES	15FEB95	0014		-
PA	CAMBRIA	95BLA00034	LEWIS WILLIAM R.	05OCT94	0147	04APR95	-
PA	CAMBRIA	95BLO00011	FUNYAK FRANK	05JAN95	0055	09JUN95	-
PA	CAMBRIA	95BLA00866	FARRELL KENNETH	15FEB95	0014		-
PA	CAMBRIA	95BLA00075	LEE DOROTHY	13OCT94	0139	04APR95	-
PA	CAMBRIA	95BLA00206	NELSON CHARLES W	02NOV94	0119	05JUN95	-
PA	CAMBRIA	95BLA00520	VOZAR JOSEPH	20DEC94	0063	05JUN95	-
PA	CAMBRIA	95BLA00787	DEPOLA MIKE	26JAN95	0034	09JUN95	-
PA	CAMBRIA	95BLA00933	TANISH FRANK S.	21FEB95	0008		-
PA	CARBON	95BLA00714	VAIANA ALFRED	18JAN95	0042		-
PA	CLARION	95BLA00043	SUMMERVILLE JOIC	11OCT94	0141	05APR95	-
PA	CLARION	95BLA00530	LAUER THOMAS M.	28DEC94	0063	06JUN95	-
PA	CLEARFIE	95BLA00836	WILLIAMS RICHARD	07FEB95	0022	09JUN95	-
PA	CLEARFIE	03BLA04406	DIXON CALVIN C.	13FEB95	0016		-
PA	CLEARFIE	95BLA00617	SOUPART JOHN F.	10JAN95	0050	05JUN95	-
PA	COLUMBIA	95BLA00809	WOOD CLYDE	18JAN95	0042		Y
PA	COLUMBIA	95BLA00512	MENSCH JAMES A.	20DEC94	0071		Y
PA	COLUMBIA	95BLA00446	STANCHOCK PETER	14DEC94	0077		-
PA	CRAWFORD	95BLA00897	WEST EARL E.	14FEB95	0015		-
PA	ELK	95BLA00715	BRUNELLI ALBERT	18JAN95	0042	28JUN95	-
PA	ELK	95BLA00931	HUFF WILLIAM F.	21FEB95	0008		-
PA	FAYETTE	95BLA00807	TAFFONI ERNEST L	10JAN95	0050	08JUN95	Y
PA	FAYETTE	95BLA00839	ELLSWORTH WILLIA	07FEB95	0022	08JUN95	-
PA	FAYETTE	95BLA00739	BELLO STEVE	31JAN95	0029	06JUN95	-
PA	FAYETTE	95BLA00896	GERA THOMAS J.	14FEB95	0015		-
PA	FAYETTE	95BLA00286	ANDERSON CALVIN	22NOV94	0099	06JUN95	-
PA	FRANKLIN	95BLA00790	SUTTON RAY	26JAN95	0034	28JUN95	-
PA	GREENE	95BLA00529	CAREY FRANKLIN	28DEC94	0063	06JUN95	-
PA	GREENE	95BLA00895	KUBASIK CHARLES	14FEB95	0015		-
PA	GREENE	95BLA00899	JOHNSTON WALTER	14FEB95	0015		-
PA	GREENE	95BLA00804	KUIS FRANK	10JAN95	0050	08JUN95	Y
PA	HUNTINGD	95BLA00946	PROUGH CLAIR E.	22FEB95	0007		-
PA	INDIANA	95BLA00943	PATTERSON GEORGE	22FEB95	0007		-
PA	INDIANA	95BLA00945	LAROSA JOHN	22FEB95	0007		-
PA	INDIANA	95BLA00154	MOVINSKY ANTHONY	27OCT94	0125	28JUN95	-
PA	JEFFERSO	95BLA00766	LUTHER VAUGHN W.	23JAN95	0037	08JUN95	-
PA	JEFFERSO	95BLA00944	SNYDER ERNEST N	22FEB95	0007		-
PA	LACKAWAN	95BLA00694	GUZZI CARMELLA	05JAN95	0055		-
PA	LACKAWAN	95BLA00509	VISPI HARRY	20DEC94	0071		Y
PA	LACKAWAN	95BLA01007	LEOMBRUNI MARIO	14FEB95	0015		Y
PA	LACKAWAN	95BLA00893	TURANO MICHAEL	14FEB95	0015		-
PA	LACKAWAN	95BLA00816	CARLSON DONALD	07FEB95	0022		-
PA	LACKAWAN	95BLA00667	WALSH THOMAS	17JAN95	0043		-
PA	LACKAWAN	95BLA01001	CENCETTI ARMAND	14FEB95	0015		Y
PA	LUZERNE	95BLA00681	YUHAS PETER	12JAN95	0048		-
PA	LUZERNE	95BLO00010	BABULA WALTER	05JAN95	0055		-
PA	LUZERNE	95BLA00666	KISH JOSEPH	17JAN95	0043		-
PA	LUZERNE	95BLA00513	KOBUSKY EDWARD	20DEC94	0071		Y
PA	LUZERNE	92BLA00786	BUSCEMI JOHN C.	26JAN95	0034		-
PA	LUZERNE	95BLA00668	BELCASTRO PRIMO	17JAN95	0043		-
PA	NONE	95BLA00644	WILK JOSEPH	05JAN95	0055	25MAY95	-
PA	NORTHUMB	95BLA00894	KAMINSKY ANTHONY	14FEB95	0015		-
PA	NORTHUMB	95BLA00609	FISHER CHARLES H	12JAN95	0048	21JUN95	-
PA	NORTHUMB	95BLA00829	WALDROFF WAYNE	03FEB95	0026	24MAY95	-
PA	NORTHUMB	95BLA00979	SHUKITT JOSEPH	28FEB95	0001		-
PA	NORTHUMB	95BLA00610	RITZ JOHN F.,JR	12JAN95	0048	21JUN95	-
PA	SCHUYLKI	95BLA00693	ALANSKY WILLIAM	05JAN95	0055	25MAY95	-
PA	SCHUYLKI	95BLA00695	WELKER EVERT	05JAN95	0055	21JUN95	-
PA	SCHUYLKI	95BLA00573	SHALAMANDA JOSEP	22DEC94	0069	22MAY95	-
PA	SCHUYLKI	95BLA00815	MELUSKY FRANK	07FEB95	0022	23MAY95	-
PA	SCHUYLKI	95BLA00696	LINKCHORST WILLI	05JAN95	0055	21JUN95	-
PA	SCHUYLKI	95BLA00810	PECA RAYMOND	12JAN95	0048	24MAY95	Y
PA	SCHUYLKI	95BLA00808	SHIMKUS MICHAEL	18JAN95	0042	22MAY95	Y
PA	SCHUYLKI	95BLA00814	KRAUSE HERBERT	07FEB95	0022	22MAY95	-
PA	SCHUYLKI	95BLA00911	TEMPROVICH JOSEP	10FEB95	0019		-
PA	SCHUYLKI	95BLA00891	KRAMER CHARLES	14FEB95	0015		-
PA	SCHUYLKI	95BLA00892	BERTASAVAGE PETE	14FEB95	0015		-
PA	SCHUYLKI	95BLA00574	GRAVER CHARLES G	22DEC94	0069	21JUN95	-
PA	SCHUYLKI	95BLA00682	KING FRANK	12JAN95	0048	22JUN95	-

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
PA	SCHUYLKI	95BLA00769	MOYER LEE O.	25JAN95	0035	22JUN95	-
PA	SCHUYLKI	95BLA00770	HIKES JOHN P.,SR	25JAN95	0035	22JUN95	-
PA	SCHUYLKI	95BLA00771	POGIRSKI WALTER	25JAN95	0035	22JUN95	-
PA	SCHUYLKI	95BLA00542	BARNES CHARLES G	29DEC94	0062	21JUN95	-
PA	SCHUYLKI	95BLA00680	SCHAEFFER HOWARD	12JAN95	0048	23MAY95	-
PA	SCHUYLKI	95BLA00756	FEDOROWICH PETER	31JAN95	0029	22MAY95	-
PA	SCHUYLKI	95BLA00678	LEVY EDWARD	12JAN95	0048	24MAY95	-
PA	SCHUYLKI	95BLA00679	KIMMEL LEO J.	12JAN95	0048	23MAY95	-
PA	SCHUYLKI	95BLA00772	GIBBONS FREDERIC	25JAN95	0035	22JUN95	-
PA	SCHUYLKI	95BLA00543	TROUP HAROLD L.	29DEC94	0062	25MAY95	-
PA	SCHUYLKI	95BLA00683	MAURER LLOYD	12JAN95	0048	22JUN95	-
PA	SCHUYLKI	95BLA00713	KUBILUS EDWARD	18JAN95	0042	26MAY95	-
PA	SCHUYLKI	95BLA00712	KUCZYNSKI PAUL	18JAN95	0042	23MAY95	-
PA	SCHUYLKI	95BLA00514	MATWEECHA EUGENE	27DEC94	0064	21JUN95	-
PA	SCHUYLKI	95BLA00547	FLANNERY THOMAS	28DEC94	0063	24MAY95	-
PA	SCHUYLKI	95BLA00997	PELLISH JOSEPH	07FEB95	0022		Y
PA	SCHUYLKI	95BLA00545	SHOLTIS PAUL	29DEC94	0062	25MAY95	-
PA	SCHUYLKI	95BLA00692	ANDREWS PAUL	05JAN95	0055	22JUN95	-
PA	SOMERSET	95BLA00754	MILLER WAYNE H.	31JAN95	0029	07JUN95	-
PA	SOMERSET	95BLA00522	EVENECH JOHN A	28DEC94	0063	05JUN95	-
PA	WASHINGT	95BLA00642	PORTER HARRY	05JAN95	0055	06JUN95	-
PA	WASHINGT	95BLA00899	STEPHENS PAUL	14FEB95	0015		-
PA	WASHINGT	95BLA00805	PERSIN FRANK F.	28DEC94	0063	09JUN95	Y
PA	WASHINGT	95BLA00662	RICCIUTI ALFRED	17JAN95	0043	06JUN95	-
PA	WASHINGT	95BLA01003	DARRAS ROBERT W.	22FEB95	0007		Y
PA	WASHINGT	95BLO00013	HANEY CORLISS	14FEB95	0015		-
TN	CAMPBELL	95BLA00614	MCKAMEY PAUL	10JAN95	0050		-
TN	CAMPBELL	95BLA00612	SEIBER CLYDE H.	10JAN95	0050		-
TN	CAMPBELL	95BLA00416	BRANAM VIRGIL	05DEC94	0086		Y
TN	GRUNDY	95BLA00910	FLYNN DOUGLAS W	16FEB95	0013		-
TN	GRUNDY	95BLA00969	COFFELT CHARLES	28FEB95	0001		-
TN	GRUNDY	95BLA00391	PHILLIPS DAVID F	01DEC94	0090		-
TN	LAWRENCE	95BLA00761	WALLACE AARON	25JAN95	0035		-
TN	MARION	95BLA00587	SCISSOM LONNIE O	17JAN95	0043		Y
TN	MARION	95BLA00410	MARTIN JACK R.	09DEC94	0082		-
TN	MARION	95BLA00953	MORRISON RAY H.	23FEB95	0006		-
TN	MARION	95BLA00451	KILGORE PHILLIP	15DEC94	0076		-
TN	MORGAN	95BLA00999	BUNCH RICHARD A.	14FEB95	0015		Y
TX	GREGG	95BLA00977	BRAY ROY W.	28FEB95	0001		-
TX	TRAVIS	95BLA00849	BROWN ROBERT	07FEB95	0022		-
TX	WOOD	95BLA00889	BRADLEY FRANKLIN	14FEB95	0015		-
UT	CARBON	95BLA00890	PARSONS KENNETH	14FEB95	0015		-
UT	CARBON	95BLA00396	BYRGE CHARLES W.	07DEC94	0084		-
UT	CARBON	95BLA00845	FEICHKO JOSEPH	07FEB95	0022		-
VA	BRISTOL	95BLA00703	JUSTUS DARRELL E	05JAN95	0055	22MAY95	-
VA	BUCHANA	95BLA00718	STANFORD WORLEY	18JAN95	0042	22MAY95	-
VA	BUCHANA	95BLA00594	SMITH GARNEY G.	19JAN95	0041	15AUG95	-
VA	BUCHANAN	95BLA00645	DEEL CHARLES A	05JAN95	0055	15AUG95	-
VA	BUCHANAN	95BLA00733	JUSTUS MAT	31JAN95	0029	22MAY95	-
VA	BUCHANAN	95BLA00978	HOUCK JIMMIE D.	28FEB95	0001	14AUG95	-
VA	BUCHANAN	95BLA00812	POWERS WOODROW	26JAN95	0034	05JUN95	-
VA	BUCHANAN	95BLA00223	DOTSON THURMAN	04NOV94	0117		-
VA	BUCHANAN	95BLA00663	MARSHALL WILLIE	17JAN95	0043	16AUG95	-
VA	BUCHANAN	95BLA00731	RATLIFF LEE A.	31JAN95	0029	22MAY95	-
VA	BUCHANAN	95BLA00876	PAYNE ELMER	15FEB95	0014	14AUG95	-
VA	BUCHANAN	95BLA00941	PRESLEY MURIL E.	22FEB95	0007	19JUN95	-
VA	BUCHANAN	95BLA00643	LEE ELMER	05JAN95	0055	15AUG95	-
VA	BUCHANAN	95BLA00757	WARD CLEON	31JAN95	0029	22MAY95	-
VA	BUCHANAN	95BLA00863	PROPPS FRANKLIN	15FEB95	0014	05JUN95	-
VA	BUCHANAN	95BLA00803	MATNEY TEDDY R.	31JAN95	0029	05JUN95	Y
VA	BUCHANAN	95BLA00732	CRAWFORD EDWARD	31JAN95	0029	22MAY95	-
VA	BUCHANAN	95BLA00702	HURLEY ANDREW	05JAN95	0055	16AUG95	-
VA	BUCHANAN	95BLA00464	YATES EUGENE	16DEC94	0075		-
VA	BUCHANAN	95BLA00777	WEST VIRGIL	26JAN95	0034	22MAY95	-
VA	BUCHANAN	95BLA00608	HESS ROY	12JAN95	0048		-
VA	BUCHANAN	95BLA00793	MAYS PAUL	24JAN95	0036	22MAY95	-
VA	BUCHANAN	95BLA00611	MILLER ROBERT P.	02JAN95	0058	14AUG95	-
VA	BUCHANAN	95BLA00735	BLANKENSHIP RALP	31JAN95	0029	05JUN95	-
VA	BUCHANAN	95BLA00125	DEEL CARLIS	24OCT94	0128		-
VA	BUCHANAN	95BLA00925	VANCE JOSEPH	17FEB95	0012	19JUN95	-
VA	BUCHANAN	95BLA00596	BOSTIC CLYDE H.	19JAN95	0041	14AUG95	-
VA	BUCHANAN	95BLA00924	HENSLEY BENNY H.	17FEB95	0012	05JUN95	-
VA	BUCHANAN	95BLA00794	COLLEY ARVIL LEE	24JAN95	0036	22MAY95	-
VA	BUCHANAN	95BLA00788	LESTER ROGER E.	26JAN95	0034	22MAY95	-
VA	BUCHANAN	95BLA00753	DANIELS GILBERT	31JAN95	0029	22MAY95	-
VA	BUCHANAN	95BLA00595	STILTNER STANLEY	19JAN95	0041	15AUG95	-

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ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
VA	BUCHANAN	95BLA00934	LESTER LONZO	21FEB95	0008	19JUN95	-
VA	DICKENSO	95BLA00926	MARTIN JIMMIE M.	17FEB95	0012	19JUN95	-
VA	DICKENSO	95BLA00877	MULLINS GEORGE C	15FEB95	0014	14AUG95	-
VA	DICKENSO	95BLA00952	JONES JOHNNY	23FEB95	0006	19JUN95	-
VA	DICKENSO	95BLA00951	HOPSON ARNOLD D.	23FEB95	0006	14AUG95	-
VA	DICKENSO	95BLA00698	FULLER ROY	05JAN95	0055	14AUG95	-
VA	DICKENSO	95BLA00830	STANLEY ORGIE	03FEB95	0026	05JUN95	-
VA	HOPEWELL	95BLA00775	SAVANNAH WILLIE	26JAN95	0034	22MAY95	-
VA	LEE	95BLA00776	ELY CLIFFORD R.	26JAN95	0034	22MAY95	-
VA	LEE	95BLA00697	ROBBINS JAMES D.	05JAN95	0055	15AUG95	-
VA	LEE	95BLA00053	ELDRIDGE JAMES E	11OCT94	0141	05JUN95	-
VA	LEE	95BLA00789	CALTON DANIEL R.	26JAN95	0034	22MAY95	-
VA	LEE	95BLA00755	PETERS HOWARD	31JAN95	0029	22MAY95	-
VA	NORTON	95BLA00084	HAMILTON HAROLD	17OCT94	0135	14AUG95	-
VA	ORANGE	95BLA00384	ADKINS LLOYD	05DEC94	0086		-
VA	RUSSELL	95BLA00942	TAYLOR BILLY H.	22FEB95	0007	19JUN95	-
VA	RUSSELL	95BLA00932	COMPTON JAMES R.	21FEB95	0008	19JUN95	-
VA	RUSSELL	95BLA00635	HUGHES JAMES	05JAN95	0055	16AUG95	-
VA	RUSSELL	95BLA00879	BLANKENSHIP FRED	14FEB95	0015	05JUN95	-
VA	RUSSELL	95BLA00765	STROUTH BOBBY L.	23JAN95	0037	22MAY95	-
VA	RUSSELL	95BLA00923	COUCH HAROLD	17FEB95	0012	05JUN95	-
VA	SCOTT	95BLA00701	BOWEN DONALD R.	05JAN95	0055	16AUG95	-
VA	TAZEWELL	95BLA01005	VANDYKE ROOSEVEL	22FEB95	0007	14AUG95	Y
VA	TAZEWELL	95BLA00929	MULLINS HAROLD	17FEB95	0012	19JUN95	-
VA	TAZEWELL	95BLA00699	PROFFITT CHARLIE	05JAN95	0055	15AUG95	-
VA	TAZEWELL	95BLA00792	DUTY DALE A.	24JAN95	0036	22MAY95	-
VA	TAZEWELL	95BLA00763	HOGSTON JOSEPH A	23JAN95	0037	22MAY95	-
VA	TAZEWELL	95BLA00940	ABSHER PAUL M.	22FEB95	0007	19JUN95	-
VA	TAZEWELL	95BLA00734	JUSTICE JOHN M.	31JAN95	0029	22MAY95	-
VA	TAZEWELL	95BLA00957	PUGH WILLIE	23FEB95	0006	19JUN95	-
VA	TAZEWELL	95BLA00838	ANDERSON DONNIE	07FEB95	0022	05JUN95	-
VA	TAZEWELL	95BLA00837	BROWN CLARENCE E	07FEB95	0022	05JUN95	-
VA	TAZEWELL	95BLA00828	DUNFORD CALVIN	03JAN95	0057	19JUN95	-
VA	TAZEWELL	95BLA00827	KNUCKLES DEWEY R	03FEB95	0026	05JUN95	-
VA	TAZEWELL	95BLA00861	LESTER ISAAC	15FEB95	0014	14AUG95	-
VA	TAZEWELL	95BLA00632	LOWE CLAUDE W.,J	05JAN95	0055	04MAY95	-
VA	TAZEWELL	95BLA00353	MAYS JAMES	28NOV94	0093		-
VA	WASHINGT	95BLA00880	HURD HARRY N.	14FEB95	0015	05JUN95	-
VA	WISE	95BLO00002	GREEAR RICHARD T	11OCT94	0141	05JUN95	-
VA	WISE	95BLA00764	ATKINS KENNETH L	23JAN95	0037	22MAY95	-
VA	WISE	95BLA00950	MULLINS RUFUS G	23FEB95	0005	14AUG95	-
VA	WISE	95BLA00454	ROBERTS CLAUDE	15DEC94	0076		-
VA	WISE	95BLA00862	SPEARS RAYMOND D	15FEB95	0014	05JUN95	-
VA	WISE	95BLA00516	SHOOP JONAH	28DEC94	0063		-
VA	WISE	95BLA00593	KOPP KENNETH C.	19JAN95	0041	15AUG95	-
VA	WISE	95BLA00700	REECE JOSEPH	05JAN95	0055	16AUG95	-
VA	WISE	95BLA00482	DOOLEY WILLIAM W	20DEC94	0071	15AUG95	-
VA	WISE	95BLA00865	BENTLEY PAUL	15FEB95	0014	05JUN95	-
VA	WISE	95BLA00927	MAYNARD HOMER	17FEB95	0012	19JUN95	-
VA	WISE	95BLA00795	MARTIN FREDERICK	26JAN95	0034	05JUN95	-
WA	KITTITAS	95BLA00395	STEWART WILLIAM	07DEC94	0084		-
WA	MCDOWELL	95BLA00588	HORN CHARLIE L.	17JAN95	0043	12JUN95	-
WV	BARBOUR	95BLA00955	SATTERFIELD HARR	23FEB95	0006		-
WV	BOONE	95BLA00973	DAMRON PAUL	28FEB95	0001	05JUN95	-
WV	BOONE	95BLA00726	SANDERS JOHN	31JAN95	0029		-
WV	BOONE	95BLA00860	GREEN TROY L.	07FEB95	0022	05JUN95	-
WV	BOONE	95BLA00912	COOK DENNIS L.	14FEB95	0015	05JUN95	-
WV	BOONE	95BLA00823	WHITE WILLIAM R.	03FEB95	0026	05JUN95	-
WV	BOONE	95BLO00009	BUSKIRK CLARENCE	05JAN95	0055	05JUN95	-
WV	BOONE	95BLA00820	ADKINS RONALD L.	03FEB95	0026	05JUN95	-
WV	BOONE	95BLA00824	WORKMAN ERNEST,J	03FEB95	0026	05JUN95	-
WV	BOONE	95BLA00569	HOLSTEIN JERRY	21DEC94	0070	05JUN95	-
WV	BOONE	95BLA00719	HUNTER IRA E.	18JAN95	0042	05JUN95	-
WV	BOONE	95BLA00717	HUFFMAN RALPH D.	18JAN95	0042	05JUN95	-
WV	BRAXTON	95BLA00173	SMITH GLEN W.	01NOV94	0120	05JUN95	-
WV	FAYETT	95BLA00320	SNEED DELBERT	22NOV94	0099	29MAR95	-
WV	FAYETTE	95BLA00737	CAMPBELL THOMAS	31JAN95	0029	23MAY95	-
WV	FAYETTE	95BLA00504	ELLISON ROBERT L	13DEC94	0078		Y
WV	FAYETTE	95BLA00487	BERRY JENNINGS A	20DEC94	0071	25MAY95	-
WV	FAYETTE	95BLA00858	CRADDOCK SNODEN	07FEB95	0022		-
WV	GREENBRI	95BLA00449	BRYANT LANTY L.	14DEC94	0077	25MAY95	-
WV	GREENBRI	95BLA00914	SOOS JOHNNY J.	14FEB95	0015		-
WV	GREENVRI	95BLA00915	HOLLIDAY CLYDE C	14FEB95	0015		-
WV	HARRISON	95BLA00742	WHITEMAN ARTHUR	31JAN95	0029		-
WV	HARRISON	95BLA00264	DODD JOHN J.	02NOV94	0119		-
WV	HARRISON	95BLA00519	HARRIS RONALD D.	28DEC94	0063		-

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
WV	JACKSON	95BLA00152	JOHNSON LEO	27OCT94	0125	05JUN95	-
WV	KANAWHA	95BLA00935	ALLISON WILLIAM	22FEB95	0007	05JUN95	-
WV	KANAWHA	95BLA00821	HODGE WILLIAM E.	03FEB95	0026	05JUN95	-
WV	KANAWHA	95BLA00725	LEMASTER JAMES W	31JAN95	0029	05JUN95	-
WV	KANAWHA	95BLA00799	RICHARDS ARLIE	24JAN95	0036	05JUN95	-
WV	KANAWHA	95BLA00937	BOBBITT GARY	22FEB95	0007	05JUN95	-
WV	KAWAWHA	95BLA00720	WISEMAN RAYMOND	18JAN95	0042	05JUN95	-
WV	LOGAN	95BLA01004	RATLIFF BILLY G.	22FEB95	0007	26JUN95	Y
WV	LOGAN	95BLA00137	BURKE CEBERT A	25OCT94	0127		-
WV	LOGAN	95BLA00189	PERRY ALBERT	01NOV94	0120	26JUN95	-
WV	LOGAN	95BLA00615	LANKAS PAUL R.	10JAN95	0050	26JUN95	-
WV	LOGAN	95BLA00826	FARMER ALVIN	03FEB95	0026	26JUN95	-
WV	LOGAN	95BLA00520	BAISDEN CHARLES	28DEC94	0063	26JUN95	-
WV	LOGAN	95BLA00825	COPLEY HOWARD H.	03FEB95	0026	26JUN95	-
WV	LOGAN	95BLA00819	SMITH FREEMAN	03FEB95	0026	26JUN95	-
WV	LOGAN	95BLA00736	ELSWICK ROGER B.	31JAN95	0029	26JUN95	-
WV	LOGAN	95BLA00930	GOLLIE JOE	21FEB95	0008	26JUN95	-
WV	LOGAN	95BLA00591	FLEMING RAYMOND	17JAN95	0043	26JUN95	-
WV	LOGAN	95BLA00664	LEWIS ED	17JAN95	0043	26JUN95	-
WV	LOGAN	95BLA00840	BAZILLA JOHN	07FEB95	0022	26JUN95	-
WV	LOGAN	95BLA00936	BIAS GOLDEN E.	22FEB95	0007	26JUN95	-
WV	MARION	95BLA00773	EARL WILLARD L.	25JAN95	0035	06JUN95	-
WV	MARION	95BLA00633	JACOBIN TONY	05JAN95	0055	05JUN95	-
WV	MARION	95BLA00515	KUZNIAR WILLIAM	27DEC94	0064	06JUN95	-
WV	MARION	95BLA00241	GOLL WALTER	08NOV94	0113	08JUN95	-
WV	MCDOWELL	95BLA00136	HARMAN MANDLE J	25OCT94	0127	12JUN95	-
WV	MCDOWELL	95BLA00722	DAWSON LACY E.	18JAN95	0042	12JUN95	-
WV	MCDOWELL	95BLA00723	KOPYSCIANSKI DAN	31JAN95	0029	12JUN95	-
WV	MCDOWELL	95BLA00938	CHRISTIAN VIRGIL	22FEB95	0007	12JUN95	-
WV	MCDOWELL	95BLA00716	GODFREY WILLIAM	18JAN95	0042	12JUN95	-
WV	MCDOWELL	95BLA00767	PERKINS CLARENCE	23JAN95	0037	12JUN95	-
WV	MCDOWELL	95BLA00729	HAIRSTON FRANK J	31JAN95	0029	12JUN95	-
WV	MCDOWELL	95BLA00581	SMITH GERALD L.	11JAN95	0049	12JUN95	-
WV	MCDOWELL	95BLA00818	CARTER EZRA C.	03FEB95	0026	12JUN95	-
WV	MERCER	95BLA00817	DENNIS CORLANDO	03FEB95	0026	12JUN95	-
WV	MERCER	95BLA00774	LUSK UDELL LEE	25JAN95	0035	12JUN95	-
WV	MERCER	95BLA00975	LAWSON LUIECO	28FEB95	0001	12JUN95	-
WV	MERCER	95BLA00517	TABOR MARK	28DEC94	0063	12JUN95	-
WV	MINGO	95BLA00913	FARRIS JEFFREY	14FEB95	0015	26JUN95	-
WV	MINGO	95BLA00721	STIDEM ROBERT L	18JAN95	0042	26JUN95	-
WV	MINGO	95BLA00741	LOCKARD ALFRED E	31JAN95	0029	26JUN95	-
WV	MINGO	95BLA00791	HARRISON WILLIAM	06FEB95	0023	26JUN95	-
WV	MINGO	95BLA00928	LESTER BUEL P.	17FEB95	0012	26JUN95	-
WV	MINGO	95BLA00730	WEBB RANDALL P.	31JAN95	0029	26JUN95	-
WV	MINGO	95BLA00724	BAISDEN VERNON R	31JAN95	0029	26JUN95	-
WV	MINGO	95BLA00868	CASSADY WILLIAM	15FEB95	0014	26JUN95	-
WV	MINGO	95BLA00867	DOTSON WILLIE	15FEB95	0014	26JUN95	-
WV	MONONGAL	95BLA00360	SHROUT CLIFTON R	29NOV94	0092	05JUN95	-
WV	MONONGAL	95BLA00001	BENNETT PAUL A.	03OCT94	0149	06APR95	-
WV	MONONGAL	95BLA00745	LEASE DENT L.	31JAN95	0029	05JUN95	-
WV	NICHOLAS	95BLA00518	TERRY SHERRELL L	28DEC94	0063	05JUN95	-
WV	NICHOLAS	95BLA00743	TANNER DONALD	31JAN95	0029	05JUN95	-
WV	PRESTON	95BLA00785	HAYES CHARLES	25JAN95	0035		-
WV	PRESTON	95BLA00744	STONE RICHARD	31JAN95	0029	06JUN95	-
WV	PUTNAM	95BLA00974	CUMMINGS THOMAS	28FEB95	0001	05JUN95	-
WV	RALEIGH	95BLA00028	DEEMS WENDELL P.	04OCT94	0148	24MAY95	-
WV	RALEIGH	95BLA00738	KINDER LOWELL	31JAN95	0029	23MAY95	-
WV	RALEIGH	95BLA00728	ROARK THURMOND E	31JAN95	0029	24MAY95	-
WV	RALEIGH	95BLA00452	BROWN WYLIE N.	15DEC94	0076	23MAY95	-
WV	RALEIGH	95BLA00616	HALL DAVID L.	10JAN95	0050	25MAY95	-
WV	RALEIGH	95BLA00727	LUSK LESSIE	31JAN95	0029	24MAY95	-
WV	RALEIGH	95BLA00484	FLESCHMAN CETHUS	20DEC94	0071	23MAY95	-
WV	RALEIGH	95BLA00567	WILLIAMS WILLIAM	20DEC94	0071	25MAY95	-
WV	RALEIGH	95BLA00485	HOLT HOWARD D.	20DEC94	0071	23MAY95	-
WV	RALEIGH	95BLA00796	HOWERTON HAROLD	24JAN95	0036	23MAY95	-
WV	RALEIGH	95BLA00859	BRINEGAR ROBERT	07FEB95	0022		-
WV	RALEIGH	95BLA00646	LILLY ELISHA	05JAN95	0055	24MAY95	-
WV	RALEIGH	95BLA00388	STOVER JERRY A.	05DEC94	0086	23MAY95	-
WV	RALEIGH	95BLA00797	CLAYTOR JAMES	24JAN95	0036	25MAY95	-
WV	RALEIGH	95BLA00798	HOLSTEN RICKY J.	24JAN95	0036		-
WV	RALEIGH	95BLA00857	WORLEY DENZIL	07FEB95	0022		-
WV	TYLER	95BLA00976	SHUGARS ERVIN	28FEB95	0001		-
WV	WETZEL	95BLA00954	ANTONIK GEORGE	23FEB95	0006		-
WV	WYOMING	95BLA00856	MILLER DANNY J.	07FEB95	0022		-
WV	WYOMING	95BLA00822	BRITT GUS	03FEB95	0026		-

ST	CLAIMANT COUNTY	CASE NUMBER	CLAIMANT NAME	DATE RECEIVED	AGE AS OF 3/1/95	PROJECTED HEARING DATE	LUKMAN CASE
WV	WYOMING	95BLA00740	WEIS JIMMIE R.	31JAN95	0029	25MAY95	-
WY	SHERIDAN	95BLA00575	LINDBERG CHARLES	04JAN95	0056		-
WY	SWEETWAT	95BLO00014	SHIFLAR ANDREW	28FEB95	0001		-

QUESTIONS SUBMITTED BY SENATOR MARK HATFIELD

APPLICATION OF FAIR-LABOR STANDARDS ACT TO STUDENTS

Question: School-to-Work: Recently, representatives of the business community shared concerns with you about the application of the Fair Labor Standards Act (FLSA) to students participating in training programs such as those under the School-to-Work Opportunities Act. Specifically, they were concerned about participating in the program because of the confusion about when the FLSA applies. You shared this concern with the Secretary and the DOL has responded to the concerns by providing a letter of clarification and guidance to the business community. You should note that you believe that paid work experience is a vital component of the program, yet you are concerned that business participation is essential to the success of the program and may create problems in light of the budget request that would increase funding for the program by $150 million.

1) At the out-set, I want to commend the work of the Director of the School-to-Work Opportunities Office, Ms. J.D. Hoye who also happens to be an Oregonian and to thank you for providing some guidance to the business community with regard to the minimum wage provisions of the FLSA and its applicability to the School-to-Work program. Mr. Secretary, would the guidelines provided by your Department permit paid work experience?

Answer: The guidelines accommodate paid work experience. In most cases, the paid work experience would be subject to the requirements of the FLSA. An employer has complete discretion to convert an unpaid training experience into a paid work experience.

As noted in the letter of clarification, student participants may be paid stipends for expenses such as books or tools without affecting their status under the FLSA. A stipend, however, may not be used as an alternative form of wage payment.

Question: 2) The applicability of the FLSA has also raised questions about the safety and health protection standards of student-learners. I trust that these protections are not going to be jeopardized. Is your Department working to clarify this matter as well?

Answer: If the work experience is subject to the FLSA, then the child labor provisions of the FLSA would apply to address the safety and health concerns for minors employed in the program. However, the Departments of Labor and Education along with the newly formed Student-to-Work Office, are exploring ways to protect our children even when the FLSA does not apply. The Student-to-Work Office, with the concurrences of the Departments, has prepared and distributed an advisory letter that reminds School-to-Work participants of the importance of ensuring that our children are training in safe environments that do not jeopardize their health or wellbeing. The letter also encourages employers to adhere to child labor laws with regard to hazardous working conditions even when Federal and State child labor laws do not apply. (See attachment).

ADVISORY LETTER FROM U.S. DEPARTMENT OF LABOR SCHOOL TO WORK OPPORTUNITIES

March 6, 1995

[Grantee Contact Person]
[Address]
[City, State, Zip]

Re: Health and Safety of Students Participating In School-to-Work Opportunities

Dear Grantee

Please find attached two articles reprinted from the *American Journal of Public Health* regarding occupational injuries among youth. The articles underscore the critical need to build a strong health and safety component into the design of your School-to-Work system.

The writers estimate that 5,000 youth (aged 14 through 17) are being treated per month in hospital emergency rooms for occupational injuries. Lacerations, especially of the hand or finger, were the most common type of injury incurred. Employment in retail trade accounted for more than half of all injuries and had the highest occupational injury rate among adolescent workers.

Moreover, despite federal and state child labor laws, the average annual rate of occupational injury death for 16- and 17-year olds is not significantly lower than the rate for adults 18 years of age and older (5.11 per 100,000 full-time equivalent workers compared to 6.09 per 100,000). Workers 16 and 17 years old appear to be at greater risk than adults for occupational death by electrocution, suffocation, drowning, poisoning, and natural and environmental factors (eg, struck by lightning).

In the implementation of School-to-Work programs, priority should be given to safeguarding the health and safety of youth.

Schools should be encouraged to provide students with general awareness training in occupational safety and health as part of the school-based learning component of School-to-Work. Students receiving general awareness training should be sufficiently informed as to be able to:

- Describe the general nature and types of work-related health problems.
- Describe the risk factors associated with the most common jobs held by young workers.
- Describe the concept of hazard control strategies and give examples
- List the jobs prohibited to young workers by applicable local, state, and federal laws
- Describe the procedures and policies regarding the reporting of work-related diseases and injuries at both the state and federal levels

In addition to the awareness training described above, employers should provide additional risk specific training to students participating in learning experiences at the employer's work site. At a minimum, the training should enable the student to demonstrate an understanding of the:

- Specific tasks or operations associated with their learning experience which pose risks.
- Proper use of tool, devices, and equipment provided to control identified risks.
- Procedures for responding to any potential hazards the youth identifies.
- Procedures for reporting illness and injury.

Even the most effective training program does not ensure that the skills and practices learned will be applied in the workplace. A host of factors influence the performance of workplace safety practices. For this reason the training program must be seen as but one element in a comprehensive School-to-Work system designed to safeguard the safety and health of the students. In designing your system you should address the following issues:

✓ How will potential risks to students be identified? Who will be responsible and what qualifications or experience will be adequate?

✓ What information will be provided up-front to students and parents or guardians about potential risks? Who will determine what is "too risky"?

✓ Does your written agreement between the school and employer address health and safety issues and clearly define the roles and responsibilities for ensuring the safety of the student?

✓ When federal or state law does not apply to a particular employer or learning experience, will you allow a student to participate in a hazardous activity that would be prohibited if the law applied?

Even when federal or state law does not apply, we strongly recommend that you adhere to child labor laws with regard to hazardous working conditions. Exceptions should be permitted only under tightly controlled situations in which safety and health of the youth are paramount. As with exemptions from Hazardous Orders under "student-learner" certificates, we advise that a written agreement between the school and employer verify that the hazardous activity is "intermittent and for short periods of time." In addition, the written agreement should require that the activity will be performed under the direct and close supervision of a competent person as defined by OSHA. OSHA defines a competent person as one who is capable of identifying existing and predictable hazards in surroundings or working conditions which are unsanitary, hazardous, or dangerous to employees, and who has authorization to take prompt corrective measures to eliminate them.

The goal of this letter is not to prescribe what you must do in the design of your School-to-Work systems, but it is intended to raise your awareness and sensitivity to these issues. In addressing health and safety of students, it is our hope that the response of the School-to-Work community will be more than the "legalistic" objective of complying with applicable laws. It is our vision that the School-to-Work system will create exemplary models of student work experience and youth employment which will lead to a lower rate of occupational injury for youth. We have to explore better ways of protecting the health and safety of working youth than merely "regulating" the work environment.

Safety and health of the student is both a challenge and an opportunity for School-to-Work to "reinvent the system" and demonstrate a better way of doing business. We hope that you will accept this challenge.

Sincerely,

JD Hoye, Director
Office of School-to-Work

DISLOCATED WORKER ASSISTANCE

For years you have been concerned that the primary program for dislocated workers who are enrolled in long-term retraining receive insufficient assistance to enable them to complete their training. Because of this concern, you have introduced S.90, the Worker Retraining Flexibility Act which would make the current dislocated worker program under JTPA more flexible in providing needs-based assistance to those whose unemployment insurance has run out after the normal 26 weeks. This language was included in the FY '95 appropriations bill for DOL but is only valid for one program year. Additionally, in the Administration's proposed G.I. Bill for America's Workers, dislocated workers would receive a "skill grant" in the amount of $2,620 a year.

Question. Mr. Secretary, I was pleased to note that the FY '96 budget reserves $12 million from within your Title III discretionary reserve to assist dislocated timber workers in the Pacific Northwest. I also appreciated your support of my language last year which granted more flexibility to states in providing needs-based assistance to workers in training. Would you support including this language again this year?

Answer. On July 1, 1993, the Department of Labor reserved $12 million of JTPA Title III, Secretary's National Reserve Account (NRA) funds for timber and timber-related dislocated worker projects. An additional $12 million has been reserved for Program Years 1994 and 1995, as well. The Department expects to continue to support programs to assist dislocated timber workers as an ongoing responsibility under the Title III National Reserve Account.

The FY 1995 Appropriations legislation which provides funds for the Department of Labor (P.L. 103-333) contained a number of provisions which added flexibility to the legislative requirements for Title III of JTPA. These changes, which will take effect in PY 1995 (beginning July 1, 1995), will provide more flexibility in designing individual strategies to meet the needs of dislocated workers and will enable more workers affected by plant closures or mass layoffs to receive longer-term education or retraining due to increased access to needs-related payments. This is consistent with Administration proposals for a comprehensive dislocated worker system, and we would support including this language again this year to continue the reduction in restrictions and provide for greater decision-making authority at the State level.

Question. In your proposed G.I. Bill, beyond the skill grant, does the Department propose any needs-based or income assistance to those in long-term retraining?

Answer. Yes. States would have the flexibility to offer needs-based payments to low-income adults, just as they do now under JTPA. In addition, income support would be available to dislocated workers who lose their jobs while they are participating in longer-term training.

ERISA PREEMPTION

Question. As you know, Mr. Secretary, a number of states have recently passed comprehensive health care reform proposals in order to begin addressing the goal of providing universal access to health care to their citizens. Unfortunately, a number of states, including my own state of Oregon, have been unable to fully implement these reforms due to the federal preemption provisions of the Employee Retirement Income Security Act (ERISA). While this is a problem that will have to be addressed by Congress, what are your views on the concerns about ERISA preemption raised by the states, and would you support changes in ERISA that would set standards for health benefits like those currently enforced by the Department of Labor under ERISA for pension plans?

Answer: Since health reform has not been enacted at the federal level, the states clearly have a critical role. We recognize that states that have already adopted comprehensive health reform legislation cannot fully implement some of their laws because ERISA preempts state laws related to employee benefits. At the same time, multistate businesses are concerned about being subjsect to a variety of state laws.

As you may know, the governors recently released their health policy statement in which they stated their great desire that Congress modify ERISA to enable states to move forward in the absence of federal reform. It seems ironic in this climate generally favoring less federal authority and greater state flexibility that the one exception to this trend appears to be health care reform related issues.

BEST COPY AVAILABLE

During the debate in the last Congress, the Administration plan provided flexibility for the states, so long as they would be providing coverage for all their citizens. We are currently evaluating our position in the new environment and remain committed to reforms that will guarantee insurance coverage to every American and will contain health care costs. We look forward to working with Congress on a bipartisan basis to take the first steps toward reaching these goals.

QUESTIONS SUBMITTED BY SENATOR ROBERT BYRD

JOB CORPS CENTER

Secretary Reich, for the record, would you please respond to the following questions about the below-mentioned projects:

Question. Now that the construction contract for the Job Corps Center has been awarded, please provide me with an updated report about the scope of the new Job Corps Center, including significant milestone events leading to the full implementation of the project. In addition, I would like to know how many employees will be working at the facility initially and when the facility is complete, and what is the expected total annual economic impact on the area, including salaries and other purchases. Please also advise me how many students the new facility can accommodate and how many students will be enrolled?

Answer. The construction contract for the new Charleston, West Virginia facility calls for ground up construction of the following buildings that will total approximately 162,000 gross square feet (GSF).

1. Admin/Medical/Dental---11,000
2. Education--------------10,500
3. Vocational-------------22,000
4. Dining/Culinary Arts---14,000
5. Physical Fitness-------24,000
6. O & M/Warehouse--------13,500
7. Reception/Security----- 600
8. Male Dorm--------------33,000
9. Female Dorm------------33,000
10. Site improvements----- 14 Acres -- Consisting of a mountaintop which includes: parking, roads, ballfields, outdoor recreation, fencing, sidewalks and general landscaping.

Design work has been completed and the construction contract has been issued. The last significant remaining milestone is the completion of construction in December 1996.

The construction project will employ over 100 construction workers. Over the full course of the project, more than 250,000 person-hours of labor will be utilized, equating to approximately $10 million in salary and benefits.

Upon completion, the new facility will operate at the same level as the current facility. There will be 430 training slots, approximately 140 staff. The operating contract, which excludes such expenses as transportation, recruitment and eligibility screening, post termination job placement, MIS operations, national level program development, and settlement support services, will cost in the vicinity of $7.5 million per year. An additional $500 thousand per year in cash allowances will be paid to students while attending the center.

Question. May I have your assurances that you will continue to keep me fully informed in a timely manner of any developments relating to the project?

Answer. We will be pleased to keep you updated as major developments occur.

JOB CORPS SITE SELECTION CRITERIA

Question. I appreciate your commenting on the status of the Job Corps program and site selection process. Can you tell us what specific criteria you will use in this year's selections?

Answer. Congress has directed the Department to give priority to those localities having a high level of organized community support for a center and which are:

- In States with less than 2 percent of eligible youth currently served by the Job Corps program;
- In States which can demonstrate a high incidence of minority or other youth unemployment;
- In States that currently have two or fewer Job Corps centers and have not recently been selected for a new center in the Department's selection process; and
- In States with high percentages of non-urban youth.

Congress also directed the Department to give consideration to proposed sites that will serve individuals with limited English proficiency.

The Department will assess the facilities at proposed sites. The assessment will be in terms of property acquisition costs, the cost and suitability of existing structures and the need for, and cost of, new construction and renovation.

Further, the Department will assess each jurisdiction's plan to use State and local resources, both public and private, that will reduce the Federal cost of operating a Job Corps center.

Finally, additional points will be awarded for proposed sites located in empowerment zones and enterprise communities.

Eligible applicants for proposing sites are units of State and/or local governments. A Federal agency may propose sites provided they are located on public land under the agency's jurisdiction, and are supported by State and local governments.

The following space and facilities are required for a Job Corps center: Residential, Academic Education, Vocational Training, Food Services, Health Care, Recreation, Administration, Storage/Support, and Parking.

HEALTH INSURANCE SCAMS

Question: Mr. Secretary, the Department's Office of Inspector General has reported on several instances of "fly-by-night" health insurance scams known as fraudulent Multiple Employer Welfare Arrangements, or MEWAs. According to the Inspector General, these schemes affect thousands of people leaving them with millions in unpaid claims. With health care costs continuing to rise, do you see a growing trend of small employers having no alternative but to turn to these types of arrangements in order to keep health insurance costs down?

Answer: Rising health care costs certainly have created conditions that would encourage small businesses to join MEWAs to obtain affordable coverage. Today, small employers face the highest group insurance costs. Small businesses can face premiums that vary in price as much as 3503 from those available to large businesses. Administrative costs eat up as much as 40 cents of every dollar that small businesses spend on health insurance premiums, up to eight times as much as large companies. Despite these problems, most small businesses want to provide health care coverage to their employees. Consequently, small businesses may turn to MEWAs for such coverage.

However, a significant number of MEWAs have, over the past several years, created tremendous problems for participants, employers, state regulators and the Department of Labor. A March 1992 General Accounting Office Report to Congress estimated that from 1988 to 1991, unpaid claims by MEWAs totalled over $123 million and affected almost 400,000 enrollees. Since the Department began its nationwide criminal MEWA effort in the late 1980s, it has obtained 77 indictments and 70 convictions. During the past 3 years, the Department has filed 18 civil MEWA cases, in an effort to recover more than $57 million in ERISA plan losses. The Department is currently investigating approximately 70 MEWA civil cases and 37 criminal MEWA cases.

The growth in fraudulent MEWAs has been reflected in our allocation, over time, of additional enforcement resources to this area. We anticipate a growing need to allocate our enforcement resources to prosecuting unscrupulous MEWA promoters for health fraud until there is meaningful reform of our health care system.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

Immigration Funding

Question. To follow up on my question about the immigration initiative for the Department of Labor's Wage and Hour Division, I understand that the border crossing fee was intended to help defray the cost of the Administration's overall immigration efforts. It is still unclear how the $16 million will be offset. Would you recommend that other DOL programs be cut in order to fund immigration spending? If so, what programs would you cut? If not, can you suggest to the Subcommittee other offsets?

Answer. The $10.6 million requested for the Department's immigration initiative are already counted within the totals of the President's budget. With regard to offsets within the Department of Labor, let me assure you that we left no stone unturned in our search for savings. Due to our reinvention and streamlining efforts, we will have saved 1,037 FTE and $77.8 million by FY 1996. We took these cuts in part, to provide offsets for the high priority requests in the President's budget proposals.

INVESTMENT IN REINVENTION FUND

Question. Thank you for responding to my question on the reinvention and streamlining investment with a broad breakdown of the spending for the proposal. You mention that part of the funding will be set aside for agencies to borrow from for streamlining activities, then paid back when savings are realized. Are you referring to agencies outside or within the Department of Labor? Again, how would this work?

Answer. The proposal is to invest $3.9 million to capitalize an Investment in Reinvention Fund (IRF) within the Labor Department's Working Capital Fund. The purpose of the Investment in Reinvention Fund is to provide a self-sustaining source of financing for DOL agencies to invest in projects designed to produce measurable improvements in agency efficiency and to achieve significant taxpayer savings. Amounts available in this fund may be borrowed by any DOL agency to support National Performance Review recommendations and for other reinvention projects. These projects would be approved by the Secretary of Labor, and appropriate funding provided, if it could be demonstrated that savings would be achieved. Use of this fund would be limited to projects which would otherwise not be funded due to budgetary constraints. For each project, amounts borrowed would be repaid to the fund in the fiscal year following the fiscal year in which the project is completed. As repayments are made, new loans will be made for new projects, achieving new savings and continually replenishing the fund.

Because of long lead times necessary for agencies to secure funding for investment projects, they are often discouraged from making the effort to implement new procedures and processes which would result in future savings. The IRF would provide a mechanism to allow agencies to make prudent investments which would yield long-term savings.

For example, if it could be demonstrated that significant savings could be achieved in a consolidation of functions, agencies could request funds for "permanent change of station" (PCS) moves with repayment to be made from future savings in office space rental costs, with the DOL agency realizing long-term savings from the initiative.

REQUESTS FOR REINVENTION

Question. Could you provide the Subcommittee with a year-by-year projection of the savings the $20.9 million investment would bring over the next five years?

Answer. The investment of $20.9 million that the Department of Labor is requesting for streamlining represents a small down-payment to help us achieve the streamlining goals that have been identified in the Department's streamlining plan. We are proposing the following:

- $3.9 million to capitalize an Investment in Reinvention Fund to finance agency reinvention projects in order to streamline work processes and achieve long-term savings. Loans would be repaid from savings to replenish the fund for additional projects.

- $7.0 million to realign inefficiencies in office and organizational structures. This money would finance one-time costs related to de-layering organizations and eliminating inefficiencies in the structure of Departmental regional and area offices.

- $5.6 million for additional training of DOL staff. This represents an investment in training to make DOL staff more versatile and empower them with the knowledge to carry out their responsibilities in a de-layered organizational structure.

- $4.4 million for automated technologies that will allow the Department to dispense with outdated manual systems and channel staff time to customer service.

The President's FY 1996 Budget includes reductions of 3%, 5%, 7% and 9% from the FY 1996 request for fiscal years 1997 through 2000. To meet these reductions, the Labor Department will have to reduce budgetary resources for its Worker Protection, Safety and Health and Statistics accounts (i.e., not including DOL's grants programs) by $167.4 million from the FY 1996 request level by FY 2000. When one considers that this requires DOL to absorb the effects of inflation over this time period, the real effect is a reduction of approximately $366.9 million by FY 2000 to its Worker Protection, Safety and Health and Statistics accounts. Meeting these reductions while improving the quality of services offered by the Department is a daunting task. We are re-examining our entire operation to continue to look for obsolete programs that can be eliminated or for ways in which existing programs can be run more efficiently or consolidated with other operations to achieve the savings needed.

The kinds of investments in streamlining that we are requesting will allow us to downsize in a thoughtful, strategic manner. It is extremely difficult to specify exactly how much money will be saved by financing these proposals. However, we believe that these efforts will help us continue to improve service delivery even as our budgetary resources continue to diminish.

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SUBCOMMITTEE RECESS

Senator **SPECTER**. The subcommittee will stand in recess until 2 p.m., Thursday, March 9, when we will hear from the Secretary of Health and Human Services, Secretary Shalala. Thank you.

[Whereupon, at 3:58 p.m., Tuesday, March 7, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, March 9.]

DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

THURSDAY, MARCH 9, 1995

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:05 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Arlen Specter (chairman) presiding.

Present: Senators Specter, Mack, Jeffords, Harkin, Bumpers, and Kohl.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF THE SECRETARY

STATEMENT OF HON. DONNA SHALALA, SECRETARY

OPENING REMARKS OF SENATOR ARLEN SPECTER

Senator SPECTER. Ladies and gentlemen, the Appropriations Subcommittee on Labor, Health and Human Services, and Education, will now proceed.

We are honored today to have the distinguished Secretary of Health and Human Services, Ms. Donna Shalala, here to testify.

The fiscal year 1996 budget for the Department of Health and Human Services totals over $34 billion in budget authority for discretionary programs, which is a net increase of $2 billion, or 5.8 percent above fiscal year 1995.

The Department of Health and Human Services has also proposed fiscal year 1995 rescissions totaling $51 million. Last week, the House recommended over $1.7 billion in fiscal year 1995 rescissions for this department, including a rescission of $1.3 billion for LIHEAP.

Let me refer to the charts, which you see on display, which will set the parameters prepared by our excellent staff, Craig Higgins, Bettilou Taylor, and others.

The first bar chart shows the Federal budget deficits projected by the administration through the year 2000.

As you can see, the deficits stay at nearly $200 billion annually for the next 5 fiscal years, resulting in a $1 trillion increase in deficit spending by the turn of the century.

The next bar chart displays the major changes in the HHS discretionary budget request. HHS has requested $1.7 billion in increases for the investment programs and $579 million in other increases while proposing $211 million in program reductions or eliminations.

The third chart, a line graph, displays the President's budget projections for HHS discretionary spending proposals through the year 2000. As you can see, the fiscal years 1997 through 2000, the Department's outlay totals decline to $32.4 billion in the year 2000.

Now, this means that cutbacks are around the corner under the President's program, which raises questions about the rapid buildup in investment programs in fiscal year 1996.

The budget is, obviously, difficult. And I would repeat what I said when we had Secretary Reich in for the Department of Labor earlier this week, that we have a very, very difficult job ahead of us.

I think that—a mandate of the American people is to move toward a balanced budget, hopefully by the year 2002.

But we are looking at very, very major proposed cuts by the House which target your Department, Madam Chairman, at more than a pro rata share.

I think what we have to do is find a way to target reductions. I think the prevailing sentiment is going to be to meet a balanced budget by the year 2002—and I'll ask you for your opinion when we come to that—but to try to do it in accordance with what we're going to have as majority rule here in the way which is least painful to the American people, really assessing the priorities as carefully as we can, not with a meat ax, but with a scalpel.

And with your talent, Secretary Shalala, I think it will be no big deal. So we are anxious to hear from you.

SUMMARY STATEMENT OF HON. DONNA E. SHALALA

Secretary SHALALA. Thank you very much, Mr. Chairman, Senator Mack. Thank you for the opportunity to discuss the President's 1996 budget for the Department of Health and Human Services.

Our budget for fiscal year 1996 actually achieves reductions in spending by slowing the projected growth of Medicare and Medicaid—and consolidating discretionary activities by cutting programs and by streamlining the administrative structure of the Department.

At the same time, we believe this budget wisely and selectively invests in the future health and well being of all Americans.

Our 1996 budget requests a total of $231 billion in spending for programs that fall under the jurisdiction of this subcommittee. Our request for discretionary spending totals $34 billion.

Mr. Chairman, to be responsive to the demands of American citizens for a government that is smaller and more efficient, we are changing the way we do business. Let us start with Medicare and Medicaid.

Under the Clinton administration, estimates for projected 5-year spending on these programs have dropped $212 billion for the period 1994 to 1998. This change marks a significant contribution to lowering the deficit.

This extraordinary drop is due in large part to the President's historic deficit reduction measure and a strong economy with low inflation, and, of course, the 1991 bipartisan legislation limiting the use of Medicaid taxes and donations.

We have also improved program efficiency and choice for Medicaid and Medicare beneficiaries. And one way we have done this is by working with Governors on Medicaid State waivers. With these waivers, more and more States are taking advantage of opportunities to offer managed care programs under Medicaid.

Last year, Medicaid had a 63-percent increase in the number of people enrolled in managed care, from 4.8 million in 1993 to 7.8 million in 1994. The number of older Americans choosing managed care through the Medicare programs also grew by 16 percent, from 2.7 million people in 1993 to more than 3.1 million in 1994.

And we expect that the current rate of growth in the number of elderly moving to managed care will continue quite rapidly this year.

On the discretionary side of the budget, we plan to do more with less by consolidating certain activities into performance partnerships.

Most notably, in the Public Health Service, we are proposing combining 107 activities, saving an estimated $218 million in administrative costs and more than 700 FTE over the next 5 years.

In other efforts to hold the line on spending, we are proposing reductions in funding for 69 programs, taking them below the levels approved by Congress in last year's appropriations, and we plan to freeze an additional 57 activities at 1995 levels.

We are also reexamining the administrative structure of the Department in the field eliminating some of our regional overhead functions and returning administrative responsibilities to the agencies.

Mr. Chairman, while Americans want a leaner, more efficient Government, they will continue to expect us to promote economic opportunity and security and to help protect their health and the health of their children.

That is why the President's budget targets increases in a few key investment areas that have shown significant payoffs. One of these is Head Start. In 1996, we are requesting an additional $400 million to improve the program quality and increase the number of children served.

This spending is consistent with the recommendations of the bipartisan Head Start Advisory Committee and the requirements of the Head Start Reauthorization Act of 1994.

With these resources, we will create nearly 7,000 slots to serve a total of more than 25,000 children under the age of 3 in the Early Head Start initiative.

We will also create more than 25,000 new slots for current part-day programs. And to respond fully to the needs of working families, we intend to expand 22,000 current part-day slots into full-day, full-year services.

We are continuing to make strides in improving the quality of local Head Start programs.

This budget reflects the President's commitment to children and families in other ways as well.

In 1996, we are requesting an additional $100 million to help States provide safe, affordable, and high quality child care for even more working families. These are goals we all share, and we are making certain that our children are immunized.

In 1996, we are requesting $843 million for our childhood immunization initiative, which has taken dramatic strides in building public-private partnerships with thousands of private doctors in this country to make sure that no child fails to be immunized because of cost or lack of access to a health care provider.

The 1996 budget also continues this administration's commitment to the elderly and the disabled. Investments in the Social Security Administration and the Health Care Financing Administration will allow these agencies to do their work better, and more importantly, faster.

SSA will be able to greatly improve the time it takes to process disability claims; and additional funds will move us one step closer to having the technology we need to handle the workload increases projected for the turn of the century.

For those who receive assistance or Medicare or Medicaid, we are reissuing the Medicare handbook. And we are beginning to develop a new communications tool known as HCFA online to help them make informed choices about their health care.

New resources directed to the Administration on Aging will go to States to enhance home and community-based long-term care services.

One of the most important ways, though, that we fulfill our missions to promote the health of all Americans is by committing an additional $468 million, a 4-percent increase, to biomedical research at the National Institutes of Health.

Our NIH budget balances specifically targeted research with investments in basic biomedical and behavioral research.

We have witnessed many impressive gains because of our bipartisan commitment to excellence in biomedical research. Major breakthroughs in breast cancer research include the discovery of the BRCA–1 gene.

We recently announced the NIH-funded discovery of the first drug treatment for severe cases of sickle cell anemia. And last year, an NIH-sponsored clinical trial demonstrated that, when administered during pregnancy, AZT can reduce by 67 percent the risk of HIV transmission from mother to infant.

And HIV research involving the blood/brain barrier has led to a better understanding of the mechanism by which infectious agents spread into the nervous system.

These discoveries go beyond HIV though. They offer important insights into other diseases such as Alzheimer's, multiple sclerosis, and meningitis.

Mr. Chairman, we believe that biomedical research is ultimately the key to winning the war against AIDS. That is why the President's budget includes $1.4 billion for AIDS research at the National Institutes of Health.

But until we find an AIDS vaccine and a cure, we must also make strong investments in the Ryan White Program which provides vital services for people living with AIDS. In 1996, we are proposing an increase of $91 million.

This is a critical national investment. The funds we are requesting for Ryan White will assure that all eligible communities receive vital resources to help them treat people living with AIDS and HIV infection.

Mr. Chairman, we believe these are all smart investments. They are crucial to the future of this country, and they will achieve demonstrable results. That is why we are very concerned with some of the 1995 rescission proposals, because they threaten some of our most important efforts.

For example, over 35 percent of the proposed 1995 rescission for the Department, $135 million, will come from programs that offer children the chance to grow up healthy and safe, programs such as foster care and community schools.

Then there is the $60 million rescission in rural health programs, like the National Health Service Corps and rural health research, which takes us backward in our efforts to bring quality health care to rural areas.

I am also deeply concerned about the proposed welfare legislation that undermines values to which we are all committed, work, parental responsibility, the protection of children, and State flexibility.

We will not emphasize work without practical and effective work requirements. We will not move people into jobs if families do not have access to child care.

We will not have real change unless we hold both parents responsible for supporting their children; and we cannot reform welfare in this country by punishing poor children for their parent's mistakes.

We need a bold plan to end the welfare status quo and to make sure that everybody who can work does so. We look forward to working with Congress to end welfare as we know it.

What I have just described is more than a budget. It is a new way of honoring our commitment to work for the public good. We have made some tough choices. We feel that our choices will produce measurable results.

PREPARED STATEMENT

We look forward to working with the committee, Mr. Chairman, and you, and I greatly appreciate the opportunity to testify before you this morning.

I should point out I have a lengthier testimony which I have submitted for the record.

Senator SPECTER. Thank you, Madam Secretary. It will be included in the record.

[The statement follows:]

PREPARED STATEMENT OF DONNA E. SHALALA

Good afternoon, Mr. Chairman and members of the committee. Thank you for the opportunity to discuss President Clinton's 1996 Budget for the Department of Health and Human Services.

Our budget for fiscal year 1996 achieves reductions in spending by slowing the projected growth of Medicare, consolidating discretionary activities, cutting programs, and streamlining the administrative structure of the Department. At the same time, this budget wisely invests in the future health and well-being of all Americans.

Our 1996 budget requests a total of $231 billion in spending for programs that fall under the jurisdiction of this subcommittee. Our request for discretionary spending totals $34 billion.

Mr. Chairman, to be responsive to the demands of American citizens for a government that is smaller and more efficient, we're changing the way we do business—all of our business, from Medicare and Medicaid to public health programs to the administration of the Department.

Let's start with Medicare and Medicaid.

Under the Clinton Administration, estimates for projected 5-year spending on these programs have dropped $212 billion for the period 1994–1996. This change marks a significant contribution to lowering the deficit.

This extraordinary drop is due in large part to the President's historic deficit reduction measures, a strong economy with low inflation, and the 1991 bipartisan legislation limiting the use of Medicaid taxes and donations.

We have also improved program efficiency and choice for Medicaid and Medicare beneficiaries. One way we've done this is through Medicaid State waivers.

We know that States are attempting to develop effective health care solutions that meet their local needs. That's why this Administration has approved more health care waivers than any other Administration in history.

With these waivers, more and more States are taking advantage of opportunities to offer managed care programs under Medicaid.

Last year, Medicaid had a 63 percent increase in the number of people enrolled in managed care—from 4.8 million in 1993 to 7.8 million in 1994.

The number of older Americans choosing managed care through the Medicare programs also grew—by 16 percent—from 2.7 million people in 1993 to more than 3.1 million in 1994.

And we expect the current rate of growth in the number of elderly moving to managed care will continue this year.

On the discretionary side, we plan to do more with less by consolidating certain activities into Performance Partnerships.

Most notably, in the Public Health Service, we've proposed combining 107 activities, saving an estimated $218 million in administrative costs and more than 700 FTE over the next 5 years.

Program consolidations not only save money—if done wisely, they allow States and grantees to have greater control, flexibility, and accountability in managing critical services.

In other efforts to hold the line on spending, we've proposed reducing the funding for 69 programs, taking them below the levels approved by Congress in last year's appropriation. And we plan to freeze an additional 57 activities at 1995 levels. We are also reexamining the administrative structure of the Department in the field.

Some of our regional overhead functions actually will be eliminated. And some administrative responsibilities will be returned to our agencies, reducing our FTE and generating $24 million in administrative savings over 5 years.

Mr. Chairman, while Americans want a leaner, more efficient government, they will continue to expect us to promote economic opportunity and security, and to help protect their health and the health of their children.

That's why I am proud to say that this budget reaffirms the Clinton Administration's core value of putting people first. It targets increases in a few key investment areas that have shown significant payoffs—one of these is Head Start.

In 1996, we are requesting an additional $400 million to improve program quality and increase the number of children served—as recommended by the Head Start Advisory Committee and required by the Head Start Reauthorization Act of 1994.

With these resources, we'll create an additional 7,000 slots to serve a total of more than 25,000 children under the age of 3 in the Early Head Start initiative.

We'll also create an additional 25,000 new slots for current part-day programs. And to respond fully to the needs of working families, we'll expand 22,000 current part-day slots into full-day, full-year services.

We are continuing to make strides in improving the quality of local Head Start programs.

We've learned a very important lesson in the last 30 years: the sooner we make the benefits of Head Start available to children and the earlier we help parents to become capable partners in the education of their children, the stronger our families and our country will be.

This budget reflects the President's commitment to children and families in other ways as well.

In 1993, over 700,000 children were served through our Child Care and Development Block Grant.

In 1996, we're requesting an additional $100 million to help States provide safe, affordable and higher quality child care for even more working families—goals we all share. And we're making sure that our children are immunized.

In 1996, we are requesting $843 million for our Childhood Immunization Initiative—which has taken dramatic strides in building public-private partnerships with thousands of private doctors to make sure that no child fails to be immunized because of cost.

In 1993, 67 percent of our two-year-olds were immunized with the most important vaccinations—the highest percentage in our history. But we won't stop there.

With our request, we will make further progress towards our 1996 goal of immunizing 90 percent of children under age 2 with the most important vaccinations.

The 1996 budget also continues this Administration's commitment to the elderly and disabled—a commitment to provide high quality services.

Our budget request includes an additional $648 million for the Social Security Administration. Forty percent of this will continue SSA's $1.1 billion 5-year investment in automation. This critical investment will improve the effectiveness, efficiency and economy of SSA's operations, while dealing with major workload increases that are projected for the turn of the century.

Most of the balance of the increase would support SSA's efforts to address the rapid 4-year growth in the number of disability cases—cutting by one-third the number of days people will have to wait for initial claims to be processed.

Additional funds will also be used to more than double SSA's 1994 level of effort for processing continuing disability reviews.

For those who receive assistance from Medicaid or Medicare, we are reissuing the Medicare Handbook and beginning to develop a new communications tool known as HCFA on-line to help them make more informed choices so they can avoid unnecessary and often costly treatments.

New resources directed to the Administration on Aging will go to States to enhance home and community-based long-term-care services. One of the most important ways we fulfill our mission to promote the health of all Americans is by committing an additional $468 million—a 4 percent increase—to biomedical research at the National Institutes of Health.

Our NIH budget balances specific targeted research with investments in basic biomedical and behavioral research.

We have witnessed many impressive gains because of our bipartisan commitment to excellence in research. Major breakthroughs in breast cancer research include the discovery of the BRCA–1 gene. We recently announced the NIH-funded discovery of the first drug treatment for severe cases of sickle cell anemia. And I am particularly proud of our research accomplishments over the past two years in the area of HIV/AIDS.

Just last week, we announced that researchers at NIH have discovered that a minute level of naturally occurring substances known as cytokines can boost the number of infection-fighting cells in patients infected with the AIDS virus. This discovery has the potential to greatly enhance AIDS treatment.

Last year, an NIH-sponsored clinical trial demonstrated that when administered during pregnancy, AZT can reduce by 67 percent the risk of HIV transmission from mother to infant.

This is a remarkable development in retroviral research, marking the first time that we have been able to use a therapeutic agent to block transmission of the AIDS virus—or any virus—from mother to child.

And HIV research involving the blood/brain barrier has led to a better understanding of the mechanism by which infectious agents spread into the nervous system. These discoveries offer important insights into other diseases such as Alzheimer's, Multiple Sclerosis, and meningitis.

Mr. Chairman, I believe that biomedical research is ultimately the key to winning the war against AIDS. That is why the President's budget includes $1.4 billion for AIDS research at the NIH.

But until we find an AIDS vaccine and a cure, we must also make strong investments in the Ryan White program which provides vital services for people living with AIDS. In 1996, we're proposing an increase of $91 million.

We've only recently seen signs of the extent to which the AIDS epidemic has penetrated our society. More than 440,000 AIDS cases have been reported since 1981, and we estimate that more than one million Americans are infected with HIV. Furthermore, we estimate that 40,000 new HIV infections are occurring every year.

Last year, nearly 81,000 Americans were diagnosed with AIDS and more than 40,000 lost their lives. AIDS is now the number one cause of death for all Americans between the ages of 25 and 44. AIDS is spreading rapidly in women and adolescents. In fact, of the estimated 40,000 Americans who were infected with HIV last year, one-quarter were under the age of 20.

The funds we are requesting for Ryan White will assure that all eligible communities receive vital resources to help them treat people living with AIDS and HIV infection.

Mr. Chairman, we believe these are all smart investments. They are crucial to the future of this country and they will achieve demonstrable results.

That's why we are very concerned with some of the 1995 rescission proposals—they threaten some of our important efforts.

For example, over 35 percent of the proposed 1995 rescission for the Department—$135 million—will come from programs that offer children the chance to grow up healthy and safe—programs such as foster care and community schools.

And then there is the $60 million rescission in rural health programs—which takes us backward in our efforts to bring quality health care to rural areas. For the past 20 years, the National Health Service Corps has been vital to our efforts to recruit primary care givers to practice in isolated communities. The proposed rescission would cut this program by 10 percent—far below its 1994 level—which means that at least 300,000 people in isolated communities will not receive care.

Rescinding funds for rural health, especially research, will hurt our efforts to develop and evaluate innovative technology—which would assure that all Americans have access to the most current information available and to the highest quality of care.

I am also deeply concerned about proposed welfare legislation that undermines these American values to which we are all committed.

We do not emphasize work if we do not have practical and effective work requirements. We cannot end welfare by punishing poor children for their parents' mistakes. We cannot hope to move people from welfare to work if families do not have access to adequate and appropriate child care.

And we cannot reform welfare if we do not hold both parents responsible for support of their children. I want to emphasize that the President looks forward to working with Congress to overhaul our broken welfare system. We need a bold plan to end the welfare status quo and to make sure that everybody who can work does so.

The Administration shares the commitment of the Congress and the American people to real welfare reform that emphasizes work, parental responsibility, State flexibility and the protection of children.

What I have just described is more than a budget. It is a new way of honoring our commitment to work for the "public good." It makes tough choices. And it will produce measurable results.

We look forward to working with this Committee, and I greatly appreciate the opportunity to testify before you this morning. I'd be happy to answer any questions.

Thank you.

RECISSION ISSUE

Senator SPECTER. Permit me to begin with the rescission issue on LIHEAP, that has been totally eliminated in the House proposal as you know.

What would be the impact of eliminating the Low-Income Home Energy Assistance Program Madam Secretary, given the needs in this area?

Secretary SHALALA. Well, these grants, essentially, go to very low-income people to help cope with their energy bills, and in the South with air-conditioning bills.

And a combination of what is happening there and proposed cutbacks in other social service programs will make lean budgets stretch even further.

But more importantly, it really is offloading on the States because it is the States that will bear the brunt of significant numbers of people who will not have energy assistance.

Senator SPECTER. The States will bear the brunt if they provide it.

Secretary SHALALA. If they can provide it. And the health system will bear the brunt from people who are not able to pay their energy bills.

Senator SPECTER. How high a priority do you put on LIHEAP, Madam Secretary?

Secretary SHALALA. Well, as you know, we had proposed some cuts ourselves in the previous administration arguing that the earned income tax credit could partially offset some of the reductions.

We have not ever proposed eliminating the program, rather better targeting the program to high-need people and States. The Congress made it very clear in the last budget that they did not appreciate any proposals to start reducing LIHEAP.

So we came back with a proposal that, basically, kept it at its current expenditure level.

Again, while this is advanced funding and cutback, it will create problems for the individuals, for the States and for the other programs which it will put pressure on.

Senator SPECTER. Madam Secretary, turning to the proposal for $150 million in new grants to provide relief to States facing disproportionately high costs for emergency medical services to undocumented aliens, I believe that the border States have made a good case that it is really a Federal problem which they face on a variety of services to undocumented or illegal aliens.

The issue of not providing medical care to children of illegal aliens is particularly troublesome, first to the children themselves, where it is hard to blame the children or have them as the recipients of undesirable consequences which they are not responsible for, but also to everybody else in the community with respect to contagious diseases.

The contagious diseases do not respect the limitation that they cannot be passed on by children of undocumented aliens.

What is the total cost, as best you know, for those kinds of medical services? What I am getting at is: How far does $150 million go in addressing that problem?

Secretary SHALALA. Well, it covers only emergency care for undocumented immigrants.

Senator SPECTER. Would that cover all of the contagious diseases?

Secretary SHALALA. The States indicate that it will not, and because we do not know how many undocumented immigrants there are since they are undocumented, it is impossible for me to estimate.

Senator SPECTER. Well, do we have to know how many there are or how many are sick and come for medical treatment?

Secretary SHALALA. Well, we have some sense. But because people who come for medical treatment in emergency cases do not necessarily provide any kind of documentation, because it is an emergency situation, we do not have good numbers.

From what the States tell us in their own estimates, States like California, Texas, Florida, New York, and Illinois, make it very clear that even the $150 million will not, in any way, take care of costs that they are incurring for undocumented immigrants.

Senator SPECTER. What would those costs be according to the States' figures?

Secretary SHALALA. I do not have those with me. But I would be happy to provide them for the record. But they are considerably more than $150 million.

Senator SPECTER. OK.

[The information follows:]

MEDICAL COSTS FOR UNDOCUMENTED IMMIGRANTS

Accurately estimating the numbers of undocumented immigrants has always been difficult, and assessing their costs to specific programs is even more difficult. We contracted with the Urban Institute in an effort to obtain better estimates.

OBRA 86 required States to provide emergency medical services under Medicaid to undocumented persons. Urban's researchers developed benchmark estimates to assess the accuracy of seven States' cost data for these services. These seven States account for more than 85 percent of the undocumented population. The benchmarks represent Urban's estimate of the upper limit of the States' expected Medicaid costs. According to the benchmarks, costs for these seven States are estimated to total less than $219.3 to $310.5 million (for the portion of Medicaid paid by the States).

Five of these seven States had estimated their own Medicaid emergency health costs below or near Urban's maximum estimates for their States. However, Texas had a higher estimate, and California's estimate was nearly double Urban's maximum estimate. The total of the seven States' own estimates was approximately $445 million, of which California accounted for approximately $350 million.

Urban's researchers suggested a number of reasons to help explain the discrepancies between their benchmarks and certain States' estimates. States may have included other types of persons (in addition to the undocumented) in their population counts. In addition, States may have included services which are required by State rather than Federal law. Finally, a California court ruling barred eligibility workers in that State from asking the immigration status of Medicaid applicants, which may have led both to miscounting by State officials and to more undocumented persons seeking services.

We have a number of methodological concerns, both with the Urban Institute benchmark development process and with the varying cost reporting methods used by the States. We have concluded, as Urban Institute itself did in its report, that "unfortunately, there are no data to reliably estimate emergency Medicaid costs for undocumented aliens."

Federal funding already covers between 50 and 78 percent of Medicaid costs, including those for emergency medical care for undocumented persons. Nothing requires us to reimburse the States for their share of these Medicaid costs. However, we are aware of the financial impact of such costs on the States and we believe that, as a matter of policy, it is appropriate for us to provide additional assistance. We believe that the $150 million proposed in the President's budget will provide a significant amount of additional help to those States with the largest burden of such costs.

MEDICAL CENTERS

Secretary SHALALA. But I have—I am trying to be very candid here, Mr. Chairman. I have no way of analyzing whether they are close to the mark or not close to the mark because what we are talking about is our inability to get a fix on how many people are in this country who are illegal.

I mean, obviously, the medical centers have some feel for who walks in the door. We know who—what medical centers, for instance, in southern California, are particularly impacted and what they consider their overburden costs.

Senator SPECTER. My red light just went on, Madam Secretary. So we will turn now, in order of arrival, to Senator Mack.

Senator MACK. Thank you, Mr. Chairman. And welcome, Madam Secretary.

I would like to focus my attention on CDC's breast and cervical cancer screening program.

Secretary SHALALA. Yes.

Senator MACK. Last year, the administration proposed $75 million for the CDC breast and cervical cancer screening program. Congress increased that by $25 million for a total of $100 million.

Under your proposal, a total of $103 million will be available, as I understand it, in fiscal year 1996. Your fiscal year 1996 budget proposes to consolidate 32 CDC grant programs into 3 programs.

I would agree that these consolidations will likely increase State flexibility and streamline Federal bureaucracy. My first question is: When will Congress have the opportunity to review your proposal for the distribution of this important funding?

Secretary SHALALA. In terms of how the formula—the distribution formula will work?

Senator MACK. That is right.

Secretary SHALALA. Let me see whether we have an idea. In 1996, we will—each State will receive 100 percent of the amounts that they received in 1995. And then, the plan is in 1997, a formula will be applied with no State receiving less than 90 percent or more than 120 percent of the amount that they received in 1996.

So we will hold harmless the States in 1996, and we will have plenty of time to come up and talk to you about what we want to do in 1997–98 as part of this.

Senator MACK. Well, let me, put out on the table my concern. There are some who believe that allocation of these funds should be made based on poverty and poverty only.

And I would just make the case that—and I realize that I am speaking from my State's perspective, and I am sure that each individual State will do the same thing. But, as you know, Florida ranks third in the Nation in terms of new cases of breast and cervical cancer.

Should not breast and cervical cancer instances also be taken into consideration when allocating funds? Do you have any kind of sense about where you are headed with respect to what this formula might look like?

Secretary SHALALA. Well, we are going to develop performance measures. For instance, one of the things you want to look at is the percent of women over 50 who receive mammogram screening already.

I mean, we would want to look at age distribution as part of it, which would make sense if you are particularly focused on two diseases in which the incident is focused.

Since we are consolidating here the tobacco, the breast and cervical cancer, the diabetes, and the disabilities in this system, we would like to look at things like the rate of decline of smoking among adults, among teenagers.

So we are going to have to have a set of performance measures where we take into account the characteristics of the State.

What we are attempting to do is not huge shifts in the money, but slightly better targeting. So we are protecting 90 percent of the base grant, but the mix may be somewhat different for each State.

The point here is to give the States a better opportunity to target the resources for a variety of diseases in a way that fits for that State.

Senator MACK. And I appreciate that, and I think that is helpful. But I guess, at least at this stage of the game, if the formula for how the money is going to be divided among States is strictly done on the basis of poverty data, I would make the claim that that just does not go far enough.

You have already mentioned that age plays a role. I would make the case that the incidence of cancer, for example, in States ought to be taken into consideration, not after money has been divvied up among the States but in the process of divvying up that money.

Secretary SHALALA. I think your point is well taken that we have to look at the population characteristics. What we have to do is, obviously, reach consensus on what the appropriate measures are.

And I will take those recommendations back to my colleagues in our conversations.

Senator MACK. Very good. And I will probably then just send you some information with respect to this——

Secretary SHALALA. Exactly.

Senator MACK [continuing]. As to our viewpoints on it as well. Thank you.

Senator SPECTER. Thank you very much, Senator Mack.

Senator Jeffords, you are next in order of arrival.

Senator JEFFORDS. Thank you, Mr. Chairman.

First of all, I appreciate as the Senator from Pennsylvania did, your treatment of LIHEAP.

I would just ask you: What, if any, Federal programs would be available to fill the gap, or will it all go to the States?

Secretary SHALALA. There are now other programs for low-income energy assistance in HUD though I do not know what is left in HUD, because I have not looked at the rescissions that have been projected in the House on the cuts in HUD.

But there have always been some low-income energy assistance programs in the Department of Housing and Urban Development.

I would have to look at the Department of Energy to see whether they have much of that money left. I used to, when I was at HUD in the Carter administration, sir, know about these programs.

And they were, sort of, scattered across the Government. There probably are some small programs in other parts of the Government, but nothing of the power and influence of LIHEAP, which has been a very well-funded program for some period of time.

Senator JEFFORDS. I appreciated your increase in your funding recommendations for Head Start. We have had some controversy about Head Start and its relationship with the educational functions and studies. But I just wish to commend you for that. And I would hope that this committee will see the wisdom.

I am deeply concerned about educational cuts generally, that that will, actually, increase our deficit rather than decrease it. But I am hopeful that that will continue, and one area that I do have some interest in, and that is the disability programs that you have.

In talking with my employers, they have found and some insurers have found that early intervention in a disability situation results in a decrease in the length of time of the disability substantially.

I wondered whether—what program you have for giving some assistance through case management or rehabilitation services, and how fast do we intervene in those disability cases? The feeling is that it is a long time before that happens.

Secretary **SHALALA**. Too long. And one of the things in this budget and in last year's budget was to try to cut down significantly the amount of time it takes us to process a disability claim in the Department.

I do not know whether I have a chart with me on what our plans are in disability. I think I brought one with me to give you some sense of what the Social Security Administration is doing.

In 1994, it takes 97 days. These are the claims waiting times, by 1996, we will have that down to 62 days. Shirley Chater, the Social Security Commissioner, has done a good job reengineering the disability process.

And the point here is that there is evidence, because it has taken Social Security so long to deal with the disability claim, that people have actually gotten sicker.

They were in worse shape by the time they got through the appeals process and everything else than if we had made an earlier decision.

And part of the reengineering is to get a more knowledgeable person on the front end of the decisionmaking to help people get their information through a case manager. And that has been built into our new proposal. And we would be happy to send you more detailed information.

Senator **JEFFORDS**. I would appreciate that because, as you know, we are never going to get the deficit under control if we do not get our health care costs under control, and disability is, certainly, a health question.

[The information follows:]

VOCATIONAL REHABILITATION AND EMPLOYMENT STRATEGIES FOR DISABLED INDIVIDUALS

The Social Security Administration (SSA) has a strong focus on vocational rehabilitation services and other employment strategies designed to help individuals with disabilities enter the workforce. This is a crucial effort since, historically, less than one-half of 1 percent of the individuals who receive Social Security Disability Insurance benefits ever leave the rolls to return to work.

We have found, however, that most individuals with disabilities have a strong desire to work and we want to make sure they have the opportunity to do so. That is why we are intensifying our effort to assist beneficiaries and applicants in making the transition from dependence to independence.

The Social Security Act requires SSA to pay vocational rehabilitation (VR) agencies for successful rehabilitation of Disability Insurance (title II) and Supplemental Security Income (title XVI) beneficiaries. A successful rehabilitation is defined by law to be completion of 9 continuous months of substantial gainful activity. Payment is generally made by reimbursement. SSA estimates that 8,600 payments, a total of $77.1 million, will be made in fiscal year 1995 and 8,600 payments totalling $79.4 million will be made in fiscal year 1996.

SSA is working to improve the management and oversight of the current VR program to ensure its effectiveness and that the money spent is a good investment. Specific initiatives include:

- —Encouraging more use of existing work incentives by disabled individuals.
- —Conducting validation reviews of selected VR payment cases to assess the appropriateness of the payments made to VR providers.

—Upgrading SSA's VR payment management system to handle more claims and provide expanded management information flexibility.

—Working with Rehabilitation Service Administration (RSA) and the Council of State Administrations of Vocational Rehabilitation (CSAVR) to encourage State involvement in the SSA VR program.

—Sponsoring meetings with RSA to address common program concerns. Issues to be addressed include recommendations to improve the quality and appropriateness or referrals, information sharing and joint efforts to increase the number of SSA disability beneficiaries accepted into the State VR programs.

—Creating the Disability Update Report which is a mailer to SSA disability beneficiaries to assist SSA in obtaining information as a new first step in the continuing disability review process. The mailer includes a question concerning the individual's interest in receiving rehabilitation and other services that could help them achieve employment. Individuals who respond positively to this question will be referred to the appropriate State VR agency.

—Updating the Disability Report (which is completed at the time of the initial application for disability benefits) with questions to obtain an individual's specific interest in VR services. Information on the Disability Report is used by the Disability Determination Services (DDS) to help make the determination of disability. A positive response to the new questions on this report will help identify individuals who are interested in VR services and therefore assist SSA in making better referrals to State VR agencies.

—Increasing public awareness through a new SSA brochure entitled "How Social Security can Help with Vocational Rehabilitation". This brochure informs the public about the rehabilitation opportunities available to SSA's beneficiaries.

—Working with State DDS's, the State VR agencies, and the RSA on a joint task force recommendations for improving the VR referral process so that more beneficiaries will receive the appropriate rehabilitation and employment services.

—Piloting project ABLE (Able Beneficiaries' Link to Employers) in cooperation with the Office of Personnel Management (OPM), the Department of Education's Rehabilitation and four vocational rehabilitation agencies in the pilot areas of Maryland, Virginia and Washington, D.C. Its purpose is to expand employment opportunities for Social Security Disability (SSDI) and Supplemental Security Income (SSI) disability beneficiaries by linking these beneficiaries with Federal Employers through an automated referral system.

—Completing pilot studies and evaluation of Project NetWork, scheduled for final completion (through evaluation) in fiscal year 1997. Project NetWork is SSA's "case management" research initiative which tests four models for providing rehabilitation and employment services through SSA field offices.

—Presenting "Graduating to Independence," a multi-media information package aimed at assisting students with disabilities successfully make the transition from school to work by increasing their understanding of Social Security work incentives. The package includes a computer-based spreadsheet program which allows the student to predict the effect that work and earnings will have on monthly cash benefits.

Perhaps most importantly, SSA has established a proactive strategy team to develop approaches to increase the employment of current and potential disability beneficiaries, thereby promoting economic self-sufficiency and reducing their dependence on disability benefits. The team is headed by Dr. Susan Daniels, Associate Commissioner for Disability. Dr. Daniels' team has been obtaining information from Federal agency partners, members of the disability community and outside experts to obtain broad input on the problems and barriers individuals with disabilities face.

In the near future, SSA will make decisions about how best to implement future employment strategies to help achieve President Clinton's goal of economic independence for persons with disabilities.

ACUTE CARE

Senator JEFFORDS. I know there is being looked at the possibility of exchanging a disability for acute care in the Medicaid area and some of those things. And so I am hopeful that we can get some better evidence on just what that will mean.

Just a final question with respect to case management. There is movement toward utilization of case management with respect to Medicaid and Medicare.

Do you have any figures back yet as to the cost savings that can be anticipated or the ability to keep costs under control through changing that with a fee for service system?

Secretary SHALALA. We are just, in the last couple of years, getting heavily into giving Medicare recipients choices in terms of HMO's where they will be in a case management situation and Medicaid recipients with a series of waivers.

We, for the first time, have some whole States that are involved in putting their Medicaid populations into HMO's.

We do not have evaluations, we clearly are paying less than fee for service in the Medicare Program. We are paying about 95 percent of what the regional costs for fee for service would be.

There is some evidence that the HMO's are making some money off of us. But that is because they may be taking the more healthy elderly as part of that.

Common sense would lead one to believe that better case management, getting—putting more emphasis on prevention, whether it is immunizations or early screenings, would, in fact, help to reduce some of the acute care costs. But it also means that people will live longer.

So whether, in the long run, we will save as much money as we hope to save, I cannot say that. Whether we will provide more quality of life, I am absolutely convinced that if we—if people stop, you know, sort of, running around from this specialist to another as opposed to a family doctor helping to manage their care and getting in earlier for prevention, that that has to make a difference in terms of the quality of care.

Clearly, what we are trying to do is both cost containment as well as improve the quality of care.

Senator JEFFORDS. Thank you, Mr. Chairman.

Senator SPECTER. Thank you very much, Senator Jeffords. And welcome to the Appropriations Committee.

Senator JEFFORDS. Thank you. It is a pleasure to be with you. I look forward to working with you.

Senator SPECTER. I am a little worried about what is going to happen to our foreign policy now that you are not on the Foreign Relations Committee, which I know you had to give up to get this double——

Senator JEFFORDS. Well, I got on the money committee over here for Foreign Relations. So hopefully, you will——

Senator SPECTER. We can all rest easier. It is nice to have you on this committee. [Laughter.]

I noted when I came in that our distinguished ranking member, Senator Harkin, was on the floor, I saw him on television. So I knew he was engaged in a priority matter, and with his arrival, I would like to yield to him at this time for any opening statement and a round of questions.

PREPARED STATEMENT OF SENATOR TOM HARKIN

Senator HARKIN. I appreciate that very much. Thank you very much, Mr. Chairman. I was engaged on the floor, and I appreciate it, I will just ask unanimous consent to put my statement in the record.

Senator SPECTER. So ordered.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TOM HARKIN

Before beginning my opening statement, I first want to congratulate Senator Specter for chairing his inaugural budget hearing as Chairman of the Labor, Health and Human Services, and Education Appropriations Subcommittee. Senator Specter and I enjoyed a close and cooperative working relationship when I chaired this subcommittee, and I expect the same over the next 2 years or more.

Secretary Shalala, in your appearances before this subcommittee over the past two years, I consistently raised the issue of our subcommittee's capacity to match the increases for the Department of Health and Human Services' programs proposed in the President's budget. If anything the situation has gotten worse since your appearance before our subcommittee last March.

For Fiscal 1996, the Department of Health and Human Services is requesting $230 billion for mandatory and discretionary programs that fall within the jurisdiction of our subcommittee. For discretionary programs, your Department is seeking $30.9 billion, or a 4-percent increase over last year's levels. Included in that budget is a 10-percent increase for the President's investment programs—increases of $400 million for Head Start, $90 million for Ryan White, $150 million for immigrant health care, and $467 million for the National Institutes of Health. Overall, the President includes a hefty $3 billion increase for all the programs within our subcommittee's jurisdiction.

Our ability to match the President's budget requests depends on two factors * * *. Whether Congress accepts the overall discretionary spending levels assumed in the President's budget—and whether Congress approves the $9 billion reduction in military spending for 1996 proposed by the Administration. I don't need to tell you, Madame Secretary, that in the aftermath of last November's election, with the new leadership in the House, it's highly unlikely that either of these budgetary assumptions will be agreed to.

The result will be less money for this subcommittee, and fewer funds for Labor Department programs. Last year, I equated the problem to fitting a size 12 foot into a size 9 shoe. This year, that shoe will shrink several sizes smaller.

As Senator Specter pointed out, the squeeze gets even tighter in the outyears, according to the President's own budget. The question is how can we maintain the President's proposed increases for his investment programs while cutting discretionary spending by 9 percent by the year 2000. I look forward to your answer to that question.

We'll need your assistance over the next year in ensuring our subcommittee the highest allocation possible, so that we can both preserve the President's investments as well as appropriations for other programs in our bill.

As always, Madame Secretary, I look forward to hearing your testimony and working with you throughout the appropriations process.

REDUCING EXCISE TAX ON VACCINES

Senator HARKIN. In deference to my seniors here to my right, I will await my turn in questioning.

Senator SPECTER. I thought that was Senator Bumpers. Oh, yes.

Senator HARKIN. As long as he does not take half an hour. [Laughter.]

Senator SPECTER. It looks like he is going to take you up on your generous offer.

Senator Bumpers.

Senator HARKIN. He knows a good deal when he sees it.

Senator BUMPERS. Thank you, Senator Harkin.

Thank you, Mr. Chairman.

Madam Secretary, welcome to the committee.

Secretary SHALALA. Thank you.

Senator BUMPERS. I notice you are reducing the excise tax on vaccines. I had not checked on this recently, but I was just told that we now have $840 million in the vaccine injury compensation fund.

How much are you reducing the excise tax? What is the current tax and what new level are you proposing?

Secretary SHALALA. OK. Let me get those answers for you.

The reason we are reducing it is, obviously, our actuaries have told us that we can reduce the tax because there have not been as many claims, and they are projecting that there are not going to be as many claims. So it is a pleasure to be able to reduce——

Senator BUMPERS. I do not expect you to have, the precise details on this, and I have not looked into this issue in some time. But I was just curious when I saw how well we are doing with the fund.

Secretary SHALALA. We now know that based on experience, that the 1988 rate, which is when the rate was set, can be reduced by about 50 percent.

Senator BUMPERS. What is the excise tax now on DTP vaccines?

Secretary SHALALA. I guess the high balance was 809.

Senator BUMPERS. Do you know what it is for——

Secretary SHALALA. Oh, I see. It is on DTP, it is $4.56. On oral polio it is 29 cents. As you know, there are——

Senator BUMPERS. DTP is the big one, and you are going to reduce that $4-something to $2-something. You said by 50 percent.

Secretary SHALALA. We have more income—we can cut our income by 50 percent. So I do not—I have to look exactly what we are doing to that tax.

Senator BUMPERS. You do not know how much——

Secretary SHALALA. We actually have not decided on the precise method for the reductions. But we are collecting 50 percent more than we need to. So we are going to work our way through those taxes.

Senator BUMPERS. OK.

Secretary SHALALA. I think it is good news, Senator, too, that——

Senator BUMPERS. It is. It is wonderful. It is very good news, and I am very pleased to hear that.

Now, in that connection, you will recall that before we established the vaccine injury compensation fund, some pharmaceutical companies imposed their own surcharge.

And they did that for several years before we got the fund in place. I believe they continued to collect it for some time after we put the compensation fund in place. Do you have any idea whether they are still charging that surcharge? And if they are not, do you have any idea what happened to the money they collected?

Secretary SHALALA. I do not. But I certainly will ask and provide it for the record.

[The information follows:]

LIABILITY SURCHARGE ON VACCINE PURCHASES

Lederle-Praxis Biologics, Inc., used to separately identify a liability surcharge when conducting contract negotiations with CDC for the purchase of DTP vaccine, but after 1989 this separate designation was not made. No other manufacturer with whom CDC has contracted for the purchase of vaccines has separately designated a liability surcharge.

The Department is in the process of contacting the manufacturers of vaccines to seek information on the surcharges that were added to the price of vaccines prior to the establishment of the Vaccine Injury Compensation Trust Fund in 1989. Once we receive this information, it will be provided to the Committee.

TRUST FUND

Senator BUMPERS. Do you think that is a legitimate inquiry? They always told me they were putting funds aside in a trust fund, to pay for claims that were filed against them back when they had the sole liability——

Secretary SHALALA. Right.

Senator BUMPERS [continuing]. For vaccine injuries. We have now taken that off their hands with the Vaccine Injury Compensation Program.

And I will be quite frank with you: I just do not want those funds dumped into the net income category when the statute of limitations has run on claims.

Right now, they have a very legitimate argument in saying, "Look, we may have a few million left in that fund. But we still have claims outstanding."

And I just want them to know that I have not forgotten it.

Secretary SHALALA. I will ask them, Senator, and tell them that you told me to ask.

Senator BUMPERS. Now, one other question—I did not realize we were on a 5-minute time limit here. That does not give us much time.

But there is one other question I wanted to ask you, and that is: I am becoming increasingly convinced that we may have more money allocated this year for vaccine purchases than we are going to need.

In 1992, we had $158 million in the vaccine purchase fund; and this year, 1995, $534 million. That is better than a 300-percent increase in a 3-year period of time.

And let me say that this Appropriations Committee is not interested in appropriating any more money than we have to. We want to be sure we have enough money for the VFC program and the 317 program for the vaccine purchases.

But I am absolutely certain in my own mind that this is more than enough to take care of all of the vaccine we are going to need this year.

And if I may, if you will indulge me, Mr. Chairman and Senator Harkin, we all know that our problems continue to be the same, year in and year out, in increasing immunization levels.

We know that the providers who see high-risk children time and time again during each year simply are not immunizing them.

You say you have got thousands of new doctors enrolled in the VFC program. And I would like to think those are doctors who have not been involved in Medicaid and public health clinics in the past, that they are actually new doctors who are willing to get into the VFC program.

My point is this: We know that we have a national coverage rate of 67 percent.

Secretary SHALALA. Yes.

Senator BUMPERS. We have got 33 percent who are not fully immunized. And we all know that those 33 percent are high-risk children living in concentrated areas of poverty, for the most part.

And we also know that the providers in this country have not done a good job—I am talking about some very high-priced pediatricians who are not immunizing children even in the private sector.

And what I want to know is: What, if anything, are we doing now to address that which continues to be our No. 1 problem? You state there is $177 million in this request for outreach, infrastructure grants, education and so on.

How do you propose to spend that to reach this high-risk group?

Secretary SHALALA. There are a number of things going on. First of all, two-thirds of the States are now in the vaccines for children, delivering vaccines directly to private doctors.

We have a huge enrollment now of—and I have the private sites enrolled, which could be an HMO center with a lot more than one doctor—of 21,012.

We have a significant commitment from the managed care industry which has long had an interest in doing immunizations on the front end. They admitted, as did the pediatricians, that they have not been asking. They are now.

And so, this large enrollment of private doctors—and part of the deal with the private doctors is not a lot of paperwork for them to be part of this effort, combined with rebuilding the infrastructure which you have emphasized appropriately for better hours and more information and more outreach of the public health clinics, more involvement by the States.

South Carolina now is the No. 1 State in the country in terms of immunization. The Governor took an interest and put the coalition together to get both the private doctors as well as the public doctors.

And our intention is to use that money, again, to extend hours, to do the kind of outreach but to make sure we have a system in place—it does us no good to do a one-shot—but to make sure we have a system in place.

This public-private partnership is the critical part. And almost all of the States now are deeply into getting the private sector to be part of the coalition.

Senator BUMPERS. Thank you, Madam Secretary.

Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Bumpers.

Senator Kohl.

Senator KOHL. I thank you very much, Mr. Chairman.

Secretary Shalala, we are very pleased to have you with us today. I would like to just touch on four questions.

Secretary SHALALA. OK.

Senator KOHL. The first is on LIHEAP. I know that Senator Specter touched on it. Unfortunately, I was not here when you responded.

Are you saying that the administration and your Department will fight hard to continue the present level of funding for LIHEAP in light of what the House is intending to do, or is this something that is less important on your priority list—I ask because, as you know, you did cut LIHEAP last year by almost one-half. And then we restored it.

Secretary SHALALA. Right.

Senator KOHL. And now the House is intending to cut it entirely. Are you saying this is high on your level of priorities, or is it something less?

Secretary SHALALA. Senator, I reported back to the President and the Office of Management and Budget that I had marks on my back from last year's discussion about our attempts to reduce the program.

And, therefore, you will note that the President restored and put in full funding for the LIHEAP Program for this year. It is in the President's budget. And I am here to tell you that we do support the refunding of LIHEAP and oppose elimination of the program.

Senator KOHL. Good. But there are levels of commitment, you know, to everything in life. Is your level of commitment, on a 1-to-10 scale, are you up near 10 or—you understand our concern because at one point——

Secretary SHALALA. Right.

Senator KOHL [continuing]. For reasons that I am sure were justifiable to you, you did cut it almost by one-half.

Secretary SHALALA. We intend to reestablish our credentials this year, Senator.

Senator KOHL. All right.

Secretary SHALALA. So you will see us out lobbying for it.

Senator KOHL. All right. Very good. Madam Secretary, I want to talk for just a moment about programs like LIHEAP, Senior Meals and Child Nutrition Programs which the House is putting into the guise of the welfare programs and trying to do something other than continue with these programs.

Now, our arguments and discussions about how to handle welfare programs is one thing. But these other programs are not welfare.

How are we going to continue to provide services these programs covered if we use their funds for welfare reform? Do you see that it is essential to maintain funding for these programs, or do you think it is possible that we should allow discussion of funding for these programs to be handled as we may be handling welfare reform?

Secretary SHALALA. We intend to fight for these programs. We do recognize that we need to streamline the programs to make sure there is not fraud or abuse in the programs. We have recently strengthened the nutrition guidelines for school lunch, for example.

We have been strong supporters of the Meals on Wheels Programs which are, basically, run with volunteers in this country. It is a huge volunteer effort.

We believe that a child's—whether a child is hungry or not ought not to be determined by geography or by the—whether a State can make the effort to feed their children, that it is a—there is a national purpose here and a national need. And there ought to be national nutrition standards and national funding.

It is the most fundamental safety net this country has. And it very much defines us as a people on whether we have programs available for our most vulnerable citizens for feeding purposes.

Senator KOHL. All right. Thank you.

Secretary Shalala, I would also like to ask you about Medicare Select. The administrator of the Health Care Financing Administration, Bruce Vladeck, has urged Congress to slow down on legislation extending the Medicare Select Program which is now in about 15 States.

Medicare Select, as you know, is an effective managed care program that meets supplemental health insurance needs of over 26,000 elderly residents in Wisconsin and all across these 15 States.

I have heard nothing but good things about this program, Secretary Shalala, from beneficiaries and from participating health plans in Wisconsin.

So I am interested in knowing why the study that was due to be completed about 2 months ago has been delayed? Can you enlighten us on Medicare Select and your interests?

Secretary SHALALA. We have supported an extension of the Medicare Select demonstration for 6 months, and let me explain the reason for that.

Medicare Select was set up under OBRA 90. And the evaluation for Medicare Select, though, was delayed. In fact, we got it started 1 month after we arrived. The evaluation is just being completed. We will have it some time late this summer.

Our preference is to wait for what the evaluation tells us about strengthening the program to give that report to Congress, and then to—if Congress wishes to write the legislation based on what the evaluation tells us in terms of strengthening the Medicare Select Program.

We have very little to say other than our concerns about consumer protection until we see the results of that evaluation. It is 3 years delayed because it did not get started until after we arrived.

And, therefore, we support the extension of the program for 6 months. We want to bring you the evaluation, and then, we are prepared to sit down and say what changes we think need be in the program.

So do not interpret our position as being opposed to Medicare Select, rather, wanting to be helpful and make decisions based on an evaluation.

Senator KOHL. All right.

I thank you, Mr. Chairman.

Senator SPECTER. Thank you very much, Senator Kohl.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman.

And again, welcome Madam Secretary.

I also want to congratulate again for this subcommittee, Senator Specter for assuming the chairmanship of the subcommittee. We have had a very close working relationship in the past, and I know that we will continue to have that close working relationship.

Madam Secretary, again, I also want to thank you. A couple of years ago, we asked your Department for waivers to the State of Iowa to implement a welfare reform program. Your Department came through in record time with the waivers. We instituted it.

I thought I just might let you know that it is working well. As a matter of fact, I keep talking about the Iowa Welfare Program whenever I can.

And I, kind of, feel like we are the Rodney Dangerfield of the welfare reform movement in America. We are doing everything right. It is working. But we do not get any respect. [Laughter.]

In about 1 year and 3 months, the number of people on welfare working in Iowa has gone up 72 percent.

We now have a higher percentage of people on welfare working than any State in the Nation. The average cost per case has gone down about 10 percent. So it is working, and I just wanted to let you know that it is. I hope that those in your Department that are looking at welfare reform will take a look at Iowa and forget about Wisconsin for a while and what they are doing up there. [Laughter.]

But also, I want to commend you for the Department's request for the National Institute of Health. As you know, that has been a special interest of mine for a long time.

Although the 4.1-percent increase is modest when compared to the biomedical inflation rate, it is still hefty compared to the rest of the discretionary spending.

But my concern, Madam Secretary, is much in line with Senator Specter's, and that is, with the out-years. And we are working in the out-years. The President's proposed NIH budget in the out-years, 1997 to 2000, projects reductions of 3, 5, 7, and 9 percent in the years 1997, 1998, 1999, and 2000.

The President's budget projects that NIH, in the year 2000, will sustain a $1 billion reduction from the fiscal year 1996 budget request of $11.7 billion.

In response to this information, Senator Specter, Senator Hatfield, and I sent a letter to NIH Director Varmus requesting that he account for how NIH would absorb this reduction.

It is my understanding, Madam Secretary, that in preparing the out-year projections for its budget, the administration prioritized discretionary programs.

High priority programs, such as the President's investments, were essentially straight-lined. Lower priority programs sustained reductions from their 1996 base.

What I find curious—and I ask Senator Bumpers for his attention because I know he is interested in this, too—is although it is considered one of the President's investments and, therefore, priority programs, the 1996 budget lost that protected status when the administration calculated its 1997 through year 2000 budgets.

Documents from OMB divide the President's investments into two categories, protected and unprotected. Within HHS, Ryan White, Head Start, immunization, and your own immigration initiative are all protected investments, while NIH is the only unprotected investment at HHS.

I just might say to Senator Bumpers: I do not want to ruin your whole day, but the space station is also protected, but NIH is not. So there you go, I have ruined your whole afternoon. But the space station is not in this Department. But nonetheless, it has——

Senator BUMPERS. Well, we have food stamps. So we can keep the space station going.

Senator HARKIN. But it has got protected—well, I just wanted to know, Madam Secretary, if you were aware of this division of Presidential priorities. We got this from documents that we got from OMB.

If so, who made this decision that in all of HHS, that NIH would be unprotected?

Secretary SHALALA. Well, the President—let me say two things about the documentation that you received from OMB which is correct in what has been put in the budget, but is not correct in terms of decisionmaking that has yet to take place.

The President narrowed down, for the purposes of this budget, the number of investment priorities that he had.

Simultaneously, that did not mean that he ignored proper and appropriate increases in important parts of the Government, like the National Institutes of Health, nor does the exercise, the 3-, 5-, 7-, and 9-percent exercise, which is represented in that number, in the $32.4 billion number mean that the National Institutes of Health will take a 3-, 5-, 7-, and 9-percent reduction.

In fact, that is what I will need to do for the entire Department. I have not asked Dr. Varmus, for example, to give me his budget at 9 percent less.

What I have—what I will need to do within the Department is to make priority decisions; so that you should not read those numbers as some internal decision by me or by the President to reduce NIH by that amount.

Senator KOHL. Well, I would hope in that regard then, that we could get NIH back into the protected status.

Secretary SHALALA. Yes.

Senator HARKIN. Now, I do not know what protected and unprotected really means. But I have a sense of it. I have a feel for what that means.

Secretary SHALALA. Yes.

Senator KOHL. And what it means is that it is going to come later on. But the protected, they get the first slice. And NIH comes later. So I would hope that——

Secretary SHALALA. Senator, I think nothing is off the table, in the kinds of reviews we are going to need to do as we try to get control of and reduce the deficit over time and get the budget into better balance.

What the leaders of the Government, working with Congress, will need to do is to select those things that are our priorities.

If you look at our track record, I think we have done a good job. We have tried to protect the bench scientists, our investment in extramural research. But there are some things that I will be asking NIH to look at, their administrative costs, the amount of staffing that they have for their clinical center.

Since I ran a public institution—and many of the leaders in the Department also ran public, major American academic health centers—we have some feel for what the administrative or what appropriate administrative costs a first-rank health center would have, without hurting the science itself.

So I think to be fair to us, we need to take a look at our entire administrative structure in the Department and make sure we do not have too many personnel people, for example, or our ratios are not out of line in terms of what a clinical center ought to have in terms of staffing.

not out of line in terms of what a clinical center ought to have in terms of staffing.

And I believe we can do some of these things without harming what is an extraordinary investment in our scientific infrastructure in this country.

Senator HARKIN. I see my time is up. But if I can just follow just one aside now: Are you saying that you have initiated or are about to initiate some top-to-bottom review of the structure of NIH?

Secretary SHALALA. We are—Dr. Varmus has instituted a top-to-bottom review of the National Institutes of Health as part of the reinventing government initiative. He did it on phase 1 and is doing a number of things.

We are doing it on phase 2, and will be reporting on that sometime late this spring. Again, we are looking at administrative structures, as we are our field structures at HHS.

In saying that, I am not saying that I am changing the names of the Institutes or anything. But we are looking at our administrative structures in the National Institutes of Health as well as in the public health service, in HCFA, in my own office.

Senator HARKIN. Well, that is fine. I applaud that, and it ought to be done in every agency, and certainly, NIH should not be immune from that.

But I would hope that, as you look at that, that you also—and I know you will—take into account the decrease in the percentage of grants that go out that are peer reviewed.

The peer review grants that go out that are approved, that are actually getting funded, that has fallen, if I am not mistaken, I think to an all-time low. I think it is to an all-time low right now. After all, I may be mistaken, but——

Secretary SHALALA. Senator, the reason we have——

Senator HARKIN. But if I might just finish. That has come down.

Now, if you say, "Oh, well, OK. Now we are going to take and see how we can tighten down on the administration and all of that," which is fine, to save some money if we are going to accept the level at which we have fallen in terms of funding grants that are approved, that are peer reviewed. Then I do not think that is acceptable.

I mean, I do not mind you cutting down on the administrative costs and streamlining everything. But we have got to have some way of getting the number of grants that are funded back up again.

Secretary SHALALA. Well, Senator, I do not disagree. Unless we have a steady rate of funding for the scientists in this country, in the universities, at the NIH's own campus, then we will have a disincentive for the new generation of scientists that are coming on line.

Senator HARKIN. Precisely.

Secretary SHALALA. To do that, I have to make certain, and working with all of you, that we are not over funding some of the bureaucracy in the agency at the expense of a combination of investments.

When I talk about taking a look at the bureaucracy, I want to do that because I want to make sure we are not spending money on bureaucracy as opposed to getting money out in terms of grants, and it is high time that we tightened down.

We have tightened down on indirect cost rates in this country for the universities themselves. And we need to make sure that we are not spending extra dollars on administrative infrastructure that is unnecessary and—rather than protecting the quality of our investment directly in the bench scientists.

Senator HARKIN. I will get around to my second round—I want to follow up on that one more time. But I will——

Senator SPECTER. Senator Harkin, we will come back to you. I wanted to ask a question or two because I am going to have to excuse myself for 1 minute or 2. Madam Secretary, let me pick up on a topic that you had raised about increasing managed care on Medicaid.

Secretary SHALALA. Yes.

Senator SPECTER. You noted an increase of 63 percent, which leaves me with the question as to whether there might not be a very substantial increase because the figures are still low.

Secretary SHALALA. Yes.

Senator SPECTER. But how about managed care on Medicare? During the administration of your predecessor, Secretary Sullivan, I made an effort to have managed care picked up on Medicare.

But the estimates are rather conservative, even with very well managed care proposals, that you can save as much as 20 percent on managed care. Why not do more with Medicare?

Secretary SHALALA. We are, in fact, doing that, Senator. We now have—75 percent of the Medicare recipients in this country have access to managed care. We have, as you know, protected their ability to choose——

Senator SPECTER. Well, that does not answer the question. How many are using managed care?

Secretary SHALALA. Twelve percent are currently using managed care. It is increasing at something over 1 percent a month, which means we are rapidly moving into managed care with the Medicare population. The total penetration in the country is about 30 percent.

Senator SPECTER. Do you accept the conclusion that managed care has the potential to save up to 20 percent and still do a good job?

Secretary SHALALA. I do not—I cannot conclude that yet, and let me tell you why I cannot. It is because right now, we are saving about 5 percent compared to fee for service in areas where people—where we have contracts with managed care providers.

There is also some evidence that the people that are going into managed care and being recruited for managed care are the healthy part of the elderly population.

What we are talking about is a high risk population, the elderly and the disabled, which the managed care industry has very little experience with.

We hope that managed care will, in fact, save us money in the long run. If we did not believe that, we would not have moved so rapidly into managed care.

We, also, are working very hard on a PPO option, so that there is another choice, too, for the elderly.

Let me give you some sense of how people are moving into managed care. In areas where there is heavy penetration of managed care, Portland, OR, for example, where there is a lot of participation in managed care, in that area, the elderly without a lot of incentives from the industry itself, without drug benefits, without reducing the amount of cost sharing, are moving quite rapidly into managed care because they are familiar with it, members of their family are in it, they have some feeling about the industry.

In a place like Miami, FL, where you have large numbers of elderly, even where the managed care industry has offered people free drug benefits, no copayments and enticed them in, there has been a wariness among senior citizens for moving into managed care.

And all I am saying is that we are trying to do everything HCFA can to encourage people into managed care, to encourage the managed care industry.

We are, actually, working with the industry to make certain that people have choices and that they can make the packages as attractive as they can.

Senator SPECTER. Before the red light goes on, let me ask you another question. Cardinal O'Connor recently made a very important—well, he makes a lot of important statements, but he made one with respect to the cut on welfare with respect to promoting abortion.

And we are right in the middle, as you know, on all sides of welfare reform, which—I think there is a consensus—needs substantial improvement. Have you noted Cardinal O'Connor's statement?

Secretary SHALALA. Yes; I have, and the point that the Cardinal was making is that if we cut off teenagers who have children from cash assistance, if we refuse to give extra payments to women who have children while they are on welfare, and essentially punish those who make a decision to have a child financially and provide that kind of an incentive, he believes that that will lead women to make a decision not to have that child. And in his words, that decision is immoral. He said——

Senator SPECTER. What is your judgment——

Secretary SHALALA [continuing]. The incentive is on the other side.

Senator SPECTER. Just a minute, Madam Secretary. What is your judgment on that?

Secretary SHALALA. I believe, No. 1, that the Cardinal's point of view must be respected and, second, that provisions of this nature that deny assistance to children are inappropriate.

We have argued strongly against cutting off benefits and punishing children who are born to mothers other than—under 18, as opposed to having those mothers live with an adult, providing them with services and cash payments to that adult to provide for that child.

Senator SPECTER. Do you think that Cardinal O'Connor is correct that abortions will be promoted?

Secretary SHALALA. I do not know the answer to that question. But it is clear that we are limiting—that we are asking a young woman—and I, in no way, condone her getting pregnant in the first place or the young man that participated in the act in which the pregnancy occurred—that without resources, that young woman is faced with choices—and one of the choices is, indeed, having an abortion.

We have no clear evidence, because we have never been in a situation in which this country has made a decision to cut off from cash assistance teenagers who have—who make a decision to have a child.

I would not want to take the risk, any more than the Cardinal would, that we would limit the choice of that young woman. Those of us that believe in choice believe that we should make abortions as rare as possible at the same time.

Senator SPECTER. Thank you very much.

Secretary SHALALA. You are welcome.

Senator SPECTER. Senator Bumpers.

Senator BUMPERS. Thank you, Mr. Chairman.

Just to pursue that, Madam Secretary, a moment: This is just a gratuitous statement. I happen to believe that it is not likely to encourage abortions.

But I do not intend to vote to cut these young girls off because I do not think it is humane to do it. I have the utmost respect for the Cardinal, and he is entitled to his opinion.

I cannot believe that that is going to encourage youngsters to have abortions. I could conjure up a whole host of cases that are more likely to encourage abortion than this would.

But the reason I oppose it, as I said, is that I just do not believe it is humane.

Secretary SHALALA. Yes, sir.

Senator BUMPERS. I am one of the few people who think it is very rare that women have babies in order to get more money from the welfare system.

But let me ask you a related question. As you know, the House voted the other day to curb very seriously the payments of cash to the parents of dysfunctional children.

I agree with part of that. I do think that we should be providing services more than cash because in my State, we have documented case after case where parents have trained their children to feign retardation and dysfunctional symptoms.

But last year, I waged a futile fight over something that I feel very strongly about and lost. And that was: We have granted waivers to a lot of States to experiment with giving cash to food stamp eligible persons rather than food stamps.

To me, that is the height of lunacy. I have no qualms about giving people cash where cash is the best thing to solve the problem. But we give people food stamps because we made a conscious policy decision many years ago that we did not want to see anybody hungry, particularly children, in this country.

Somehow or other there is an idea afoot in this country that it is demeaning to require people to go into a grocery store and buy groceries with food stamps rather than cash. And I do not mean to demean poor people.

But I can tell you if the cable company is coming to cut your cable television off just as you happen to get a voucher instead of food stamps, I think the cable company is going to get their $30 or $60 or whatever it is, and that the children are going to go without food.

Every study we had last year showed that the grocery sales dropped when food stamps were converted to cash. In one jurisdiction that had a high poverty rate in Alabama grocery sales dropped 20 percent. The Food Stamp Program is supposed to provide nutrition, but children are suffering as a result of these cash-outs.

And I would like to stop that before it grows. Do you have any feelings about that?

Secretary SHALALA. Well, we have been very reluctant, as the Department of Agriculture has been, to cash out food stamps. We have allowed it, I think, in a couple of cases where we have been trying demonstrations to see what difference it makes.

The Food Stamp Program has had some fraud in it. We ought to admit that. But we ought to clean up the fraud in the program. And we have been working with an electronic benefit transfer system——

Senator BUMPERS. Yes; it is working pretty well.

Secretary SHALALA. In the States where it is started, it seems to be working pretty well. We need—we have some cleaning up we need to do in the program.

And our preference was to proceed along those lines to protect the hunger safety net in this country. Do you want a response on the disabled children, because it is in my bailiwick? I——

Senator BUMPERS. Let me ask you another question quickly and then return to that. The vaccine purchases here of over $500 million, how much of that is haemophilus influenzae? And how much of it is A and B? And how much of it is hepatitis B?

Secretary SHALALA. I will have to get that answer for you. Does someone have it with them?

Senator BUMPERS. It is not a large number, is it?

Secretary SHALALA. We probably do not have it with us. We do not have it with us.

Senator BUMPERS. Would you get that for me, please?

Secretary SHALALA. We absolutely will, sir.

[The information follows:]

HAEMOPHILUS INFLUENZAE

Based on estimates of need provided by the States, the amount of funds that will be used for haemophilus influenzae type b (there is no vaccine for haemophilus influenzae type a) will range from approximately $6.3 million to $28.9 million for Section 317 purchases and approximately $14.6 million to $106.6 million for VFC purchases. A range is provided because of the availability of single antigen Hib vaccine and the combined DTP/Hib vaccine to protect against haemophilus influenzae type b disease.

The combined DTP/Hib vaccine is much more expensive than the single antigen Hib vaccine ($14.41 per dose on average versus $4.17 per dose), but protects against four diseases and reduces the number of injections a child must receive. The States estimate that approximately $20.5 million will be spent on Section 317 pediatric hepatitis B vaccine purchases and approximately $79 million will be spent on VFC pediatric hepatitis B vaccine purchases.

DISABLED CHILDREN

Senator BUMPERS. Now, let us return to the disabled children.

Secretary SHALALA. There has been a lot of criticism because of the *Zebley* decision about disabled children and the definition of disability because there has been a rapid increase in the number of children receiving SSI.

There has also been concern about other people with disabilities, alcoholic and drug abusers, and Congress took some action last year.

But on disabled children, in the Social Security legislation, setting up the new Social Security independent agency, Congress asked me to appoint a panel by January 1, which I have done, which is chaired by former Congressman Jim Slattery, which will report, I hope, a little later, hopefully before summer.

They are looking very quickly because there is a lot of activity going on, and take a careful look at the definition. We have not—our inspector general has not found fraud in the system, though I am well aware of the Arkansas reports.

But they are to review how we work with disabled children and whether the SSI payment is the appropriate payment and what the definitions are. And then report—their report, actually, is not to me though I appoint them, but to Congress.

And Congressman Slattery will be back to Congress with a report. It is a bipartisan group, some experts, citizens, parents that are looking very carefully at the program for all of us.

I believe it needs a thoughtful review, not someone coming in with a hatchet. These are very vulnerable, poor children in poor families, and we ought to be very careful as we work our way through.

In some cases, more services; in other cases, it could be that holding parents responsible, giving them a check is the appropriate thing to do. But it is something that we believe needs a careful review. And that is going on.

Senator BUMPERS. Madam Secretary, I think that if you provide services rather than cash, you will eliminate 95 percent of the fraud.

Secretary SHALALA. Senator, I——

Senator BUMPERS. Now, there are places—I understand that cash is very important where you have fairly profound cases.

But I am saying that for most of the cases reported in Arkansas, providing services for truly disabled children rather than cash would solve the problem.

Secretary SHALALA. Senator, the question is: To what extent do you want to put in the hands of the bureaucracy a series of decisions about a long list of services as opposed to holding the parents responsible for making decisions that are appropriate for the child?

It is—and this Congress has always tried to find a balance, and I was not at the hearing. But I have talked to families in terms of how they spend that cash payment and what is important; whether it is important that the family has an automobile because the child has to go for treatment every day or every other day. And so, it is really a balancing act.

Senator BUMPERS. It is a very complex problem.

Secretary SHALALA. And it is complex.

Senator BUMPERS. I understand.

Secretary SHALALA. And that is why we believe that a thoughtful look at this is appropriate and timely.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Bumpers.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman.

Just to finish my question, Madam Secretary, with NIH: I listened to you about the cuts coming ahead and streamlining the NIH intramural program. I think that is what you were talking about.

Secretary SHALALA. No.

Senator HARKIN. No?

Secretary SHALALA. What I was talking about was our need to make sure that we are—that we have taken a careful look at the administration structure, not at the payments to—you and I agree that we have to maintain a new generation of quality scientists, that we have to have a steady funding for the number of grants that go out and the continuation of grants.

Senator HARKIN. OK.

Secretary SHALALA. But as part of our reinventing government process, no part of the Department, whether or not it is in a protected, so-called protected class or not, is being taken off of the table in terms of reviewing their administrative structure, whether they can be consolidated.

And all I was saying was the National Institutes of Health also were reviewing their structure. In saying that, I do not want to suggest in any way that we are looking at how many Institutes we have, for example. That is not under review.

But it is appropriate for me to ask, How many personnel people do you have? How many legislative staff people do you have? How many press people do you have? How much money are you spending on brochures versus giving money to a young scientist? What does your clinical center look like in terms of staffing and in terms of your projections for the future?

So that is what I am talking about, which I believe is appropriate.

More importantly, we bring tremendous expertise because Phil Lee, Dr. Varmus, a number of us, Helen Smitz, who ran the University of Connecticut Hospital, Bruce Vladeck's Deputy—we have a number of high-level appointees in the Department—Joe Ivy Buford, the Principal Deputy, who have had extensive experience running first-rate institutions, particularly on the administrative side in tight budget situations.

And that is what we want to look at. So do not misread me about either our commitment to——

Senator HARKIN. No.

Secretary SHALALA [continuing]. The National Institutes of——

Senator HARKIN. No.

Secretary SHALALA [continuing]. Health or our commitment to science and to the future of science.

Senator HARKIN. No; I hope I am not misreading you. Again, you are talking about the administrative structure.

Secretary SHALALA. Yes.

Senator HARKIN. When you talk about the administrative structure, you are talking about the intramural program. That is what is out at Bethesda.

And it also includes the bench scientists who are out there, the whole panoply of things that are out there. Extramural goes out to the University of Wisconsin and research centers and things like that. The total amount of money that goes for administrative costs, including the bench scientists out at Bethesda, is about $1.1 billion, I think. I may be off a little bit. It is slightly over $1 billion, less than $1.2 billion.

So if we are looking at a $1 billion reduction by the year 2000, we could wipe out the entire intramural program at Bethesda. That includes every bench scientist out there doing research to get that $1 billion savings.

So I appreciate your trying to tighten down and looking at the administrative structure, but——

Secretary SHALALA. Senator, I just——

Senator HARKIN [continuing]. You cannot get that $1 billion reduction by doing that unless you are going to wipe out the whole program.

Secretary SHALALA. Well, we obviously do not intend to——

Senator HARKIN. Of course you do not.

Secretary SHALALA. The point I have been making is that the President wants me to get down to that number within the entire HHS budget. I have to figure out a way to get down to that number between 1995 and the end of the century.

Senator HARKIN. Sure.

Secretary SHALALA. Those are my orders.

Senator HARKIN. All right.

Secretary SHALALA. He did not say, "Take it out of the National Institutes of Health."

Senator HARKIN. OK. Then what we are engaged in is a dialog of exactly how you are going to get there.

Secretary SHALALA. Yes; exactly.

Senator HARKIN. Because—I want to talk about NIH.

Secretary SHALALA. Yes.

Senator HARKIN. It seems to me it is taking a disproportionate hit from the looks of these budget numbers. Now, as I just mentioned, you talked about streamlining the administration. I am all for that.

But as I pointed out, you have only got $1 billion there in the whole structure; and yet, you have got to take a cut of $1 billion at NIH. So something has got to give there.

Secretary SHALALA. Well, I—but, Senator Harkin, the point I am making is I do not have to take $1 billion in the National Institutes of Health. The President did not ask me to spread those cuts evenly across the entire Department.

It is true that the budget numbers that you are looking at suggest that. But that is not what the President said to me. I told Alice Rivlen I was going to have this conversation with you if they laid out the budget materials this way.

That is—the message I have from the President is I can make priorities within the Department. And that does not mean that the National Institutes of Health has to take a 9-percent cut by the end of the century, as opposed to spreading the cuts in a prioritized way across the Department. That is the point I am making.

Senator HARKIN. Well, and my point is that the budget projected reductions are 3, 5, 7, and 9 percent. The President's budget projects that NIH in the year 2000——

Secretary SHALALA. And that—it does not——

Senator HARKIN [continuing]. Will sustain a $1 billion reduction.

Secretary SHALALA. That is right.

Senator HARKIN [continuing]. And I am asking you how you are going to get there. And you say you are going to tighten down on administration.

I am saying, "Whoa"——

Secretary SHALALA. No.

Senator HARKIN [continuing]. It cannot be done.

Secretary SHALALA. Let me go back through this again and see if I can make it clear.

We have to come down to 32.4 by the end of the century. To get to that number, the Office of Management and Budget has laid out a percentage decrease in the total departmental budget and allocated that evenly to most of the parts of the Department.

However, they have made it very clear that I do not have to do that. I just have to get down to 32.4. And I can take a larger cut—I can eliminate the Secretary of the Department if I want to, as a way of protecting the National Institutes of Health if I believe that those are the Nation's priorities and make those recommendations to the President.

I realize, in the budget documents, it is laid out as if every part of the Department takes exactly the same percentages. That is not what we intend to do——

Senator HARKIN. All right.

Secretary SHALALA [continuing]. Or what the President intends to do.

Senator HARKIN. I appreciate that, and I really wanted to hammer on that point because——

Secretary SHALALA. And I understand that. And I want to tell you that I assured the people at the Offices of Management and Budget, if they laid it out that way, that Senator Harkin would ask me specifically about that. [Laughter.]

Senator HARKIN. I appreciate that. Well, hopefully we will help you out. Hopefully, with Senator Specter's help, we will get the Harkin-Hatfield provision through on the health care reform bill. And NIH will be all right.

But let me—just one last thing if I might, Mr. Chairman, and it concerns, really, the FTE's again, at NIH. I sound like a broken record.

But NIH is proposed to lose 15 percent of their FTE's by 1999. That is about a 2,600 FTE reduction. And yet, we looked at OAS, the Office of the Assistant Secretary, and they—and we—by the way, we were supposed to have had a report back by January 15.

Secretary SHALALA. I think it is in.

Senator HARKIN. Is it in?

Secretary SHALALA. I think it came in in the last couple of days. So——

Senator HARKIN. OK. Fine.

Secretary SHALALA. We should check.

Senator HARKIN. I have not seen it as yet. But I appreciate that.

Now, again, you ask for an additional $785,000 for streamlining OAS.

Secretary SHALALA. Yes.

Senator HARKIN. Now, again, but they are taking—I am just looking at my figures here. They are taking—let us see.

OAS is going to be taking a 10-percent reduction, a 10-percent reduction in FTE's. NIH is scheduled to take a 15-percent reduction in FTE's.

Secretary SHALALA. No; I have very different numbers, 1993–96, that NIH will take a 7.5-percent reduction compared to 9.2 percent for all of the PHS programs.

And we will just have to compare our numbers. The Office of the Assistant Secretary will, actually, come down 30 percent by the time we are finished with this exercise. And I will have to sit down with your staff and march through the numbers to show you what we are doing.

In addition to that, there will be a reinventing government exercise in the next couple of months. And we will be able to demonstrate to you how we are treating NIH versus the other parts of the Department.

Senator HARKIN. Well, all right. All I have got here is 1993 baseline to 1999, which basically tracks these. It shows a 15-percent decrease at NIH and a 10.1-percent decrease at OAS.

Secretary SHALALA. Yes.

Senator HARKIN. And yet, with that you——

Secretary SHALALA. One of the things——

Senator HARKIN [continuing]. Are requesting funds for streamlining OAS. But why not request some funds for streamlining NIH?

Secretary SHALALA. Well, NIH is doing some buyouts too. I mean, we are doing that across the Department. One of the things that—this is the priorities in the Department.

The Indian Health Service, for example, that directly delivers services, is not coming down very much because when you cut the Indian Health Service, you are actually cutting a doctor that serves a client.

FDA is coming down very little because we—our strategy for FDA is to cut down the amount of time. There are different ways of doing administrative services, for example.

And I think I will be able to demonstrate with—to you, by the time we are through the reinventing government process, too, that, No. 1, we are not unfairly treating any part of the Department.

No. 2, that we have made, we have worked to make certain that we are protecting the core programs of the Department.

And I include in that the National Institutes of Health. But it does not mean that they can have extra bureaucrats that are unnecessary to deliver high quality services.

Senator HARKIN. I appreciate that.

Secretary SHALALA. And I am going to be tough-minded about that, Senator. I had this discussion at every university I have ever been at.

And in the end, when you bring the scientists in, they agree with you. We should not have—that, if you are going to take cuts, you have got to—and you are going to streamline, you have got to do it and take a hard look at how many administrators and bureaucrats you need to deliver high quality science services and different ways that you can do that.

Senator HARKIN. Yes; I appreciate that.

Well, Mr. Chairman, I will just close by saying that I have one—a couple of other questions, one that I just ask that you might respond to in writing. I will not take any more of the subcommittee's time.

It has to do with the technology transfer and the reasonable pricing clause that is included in collaborative research agreements or CRATAS, between NIH and industry. Now, I do not expect an answer here, but can I submit the question?

Secretary SHALALA. Yes; absolutely.

Senator HARKIN. If you could, respond to that because——

Secretary SHALALA. We have been taking a look at that.

Senator HARKIN. I appreciate that. Have you looked at what they have done at Walter Reed?

Secretary SHALALA. Yes.

Senator HARKIN. Oh, good. You are way ahead of me then.

Secretary SHALALA. OK.

Senator HARKIN. I appreciate it, because they have a way of doing it that seems to work and seems to be a lot more rapid than what NIH is doing now.

Secretary SHALALA. Right.

Senator HARKIN. Whether that is adaptable to NIH or not, I do not know. But you are looking at it, and that is——

Secretary SHALALA. But Dr. Varmus has been very interested in that issue. So——

Senator HARKIN. I appreciate that. Thank you, Madam Secretary.

Thank you, Mr. Chairman.

Senator SPECTER. Madam Secretary, I want to submit a number of questions to you for the record as well. I have been hearing from a fair number of Governors recently and people in various States about the pendency of waiver applications.

And I wrote to you about one for Arizona, and you responded in a timely fashion. I wrote to you on January 18. And you responded on January 27.

But I would appreciate an update on that. And you had noted in your response, as I had asked you, for the total number of State waiver applications; you said there were 27.

I would like a specification as to which States have asked you for waivers, and how long they have taken.

Secretary SHALALA. Yes.

[The information follows:]

WELFARE REFORM WAIVER STATUS AS OF APRIL 14, 1994

State	Number of months under review	Date received	Date approved
Arkansas	15.5	Jan. 14, 1993	Apr. 5, 1994.
California	5	Sept. 29, 1993	Mar. 1, 1994.
Colorado	6.5	June 30, 1993	Jan. 13, 1994.
Connecticut	8	Dec. 30, 1993	Aug. 29, 1994.
Florida	5	Sept. 21, 1993	Jan. 27, 1994.
Georgia	5.5	May 18, 1993	Nov. 1, 1993.
Hawaii	8	Nov. 3, 1993	June 24, 1994.
Illinois	4	Aug. 2, 1993	Nov. 23, 1993.
Indiana	6	June 21, 1994	Dec. 15, 1994.
Iowa	3.5	Apr. 29, 1993	Aug. 13, 1993.
Michigan	7	Mar. 8, 1994	Oct. 6, 1994.

WELFARE REFORM WAIVER STATUS AS OF APRIL 14, 1994—Continued

State	Number of months under review	Date received	Date approved
Mississippi	12	Dec. 10, 1993	Nov. 22, 1994.
Nebraska	5	Oct. 4, 1994	Feb. 27, 1995.
New York	4.5	June 7, 1994	Oct. 19, 1994.
North Dakota	8.5	Aug. 19, 1993	Apr. 11, 1994.
Ohio	9	May 28, 1994	Mar. 7, 1995.
Oklahoma	13	Dec. 28, 1992	Jan. 25, 1994.
Do	12.5	Feb. 24, 1994	Mar. 13, 1995.
Oregon	10.5	Oct. 28, 1993	Sept. 19, 1994.
Pennsylvania	8.5	Feb. 18, 1994	Nov. 3, 1994.
South Carolina	6.5	June 13, 1994	Jan. 6, 1995.
South Dakota	7.5	Aug. 6, 1993	Mar. 14, 1994.
Vermont	5.5	Oct. 27, 1992	Apr. 12, 1993.
Virginia	4.5	July 13, 1993	Nov. 23, 1993.
Wisconsin	3.5	July 14, 1993	Nov. 1, 1993.
Do	4.5	Feb. 9, 1994	June 24, 1994.
Wyoming	5.5	May 20, 1993	Sept. 1, 1993.

PENDING WAIVERS (ACTIVE) AS OF APR. 14, 1995

State	Number of months under review	Date received
Arizona	8.5	Aug. 3, 1994.
California	11	May 23, 1994.
Do	7.5	Aug. 26, 1994.
Do	5	Nov. 9, 1994.
Do	4.5	Dec. 5, 1994.
Do	3.5	Dec. 28, 1994.
Delaware—original	2.5	Jan. 30, 1995.
Amendments	1.5	Feb. 28, 1995.
Kansas	8.5	July 26, 1994.
Maine	8.5	Aug. 5, 1994.
Massachusetts	.5	Apr. 3, 1995.
Mississippi	2	Feb. 17, 1995.
Missouri—phase I	8	Aug. 15, 1994.
Phase II	2.5	Jan. 30, 1995.
Montana	12	Apr. 19, 1994.
North Dakota	7	Sept. 13, 1994.
Oregon	17	Nov. 12, 1993.
Pennsylvania	7	Sept. 12, 1994.
Do	3.5	Dec. 29, 1994.
Virgina—original	4.5	Dec. 2, 1994.
Amendments	.5	Mar. 28, 1995.
Washington	2.5	Feb. 1, 1995.

Senator SPECTER. And I would also like a response as to what has happened with respect to the application from U.S. Health Care, which filed a waiver for you. If you would respond to those in writing——

Secretary SHALALA. Oh, I would be happy to do that, Senator.

[The information follows:]

STATUS OF ARIZONA EMPOWER WAIVER REQUEST

In regard to the Arizona proposal, my staff have been working closely with the State staff to resolve important issues. I am pleased that as a result, we sent Arizona a draft set of Waiver Terms and Conditions on March 24, 1995 that could constitute an acceptable basis for approval of EMPOWER. We are hopeful of reaching a final decision very soon.

WAIVERS

Senator **SPECTER**. It is my sense that those are very much delayed. But I do not want to come to any conclusions on that until you provide——

Secretary **SHALALA**. Senator, we have done more waivers in 2 years than all of the previous administrations combined. And half of the States now have welfare waivers from this administration.

Senator **HARKIN**. I think ours took 3 months, 4 months, maybe. I think ours was pretty——

Secretary **SHALALA**. Yes; but, you know, some of them take longer because they are asking us to do something that may not be consistent with the law. And we have got to be creative to find something else. But we will provide it in writing.

But, Senator Specter, I very——

Senator **SPECTER**. But, Madam Secretary, that may not tell the whole story.

Secretary **SHALALA**. Yes.

Senator **SPECTER**. It depends upon how many waivers all of the prior administrations got and how many waivers you—have been requested. This is a very rapidly changing field. So what happened yesterday may not be indicative.

But I would like to get the specifics because I think that is a very important aspect of our oversight function.

Secretary **SHALALA**. Yes; absolutely.

Senator **SPECTER**. OK.

Secretary **SHALALA**. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator **SPECTER**. Thank you all very much.

There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

STREAMLINING

Question. I know that your Department has been looking closely at your administrative costs with the goal of streamlining HHS. Please provide us with a status of those efforts and any recommendations that your Agency has developed.

Answer. HHS is implementing streamlining and continuous improvement initiatives that will result in a smaller and more efficient Department in the future. Between FY 1993 and FY 1999 the Department plans to eliminate 7,500 FTE, a reduction of 11.6 percent. Additional reductions are being identified as we proceed with our Reinventing Government initiatives. A principal focus of these efforts is to reduce administrative costs and shift resources from overhead and control functions to service delivery areas. This will mean fewer supervisory and headquarters staff and fewer staff in control areas such as accounting, personnel, budget, procurement, public affairs and legislation.

One example of administrative cost reduction is the restructuring of our regional organization. We are eliminating positions in our regional offices and transferring administrative functions to service delivery organizations. Another example is a proposal in our FY 1996 budget which calls for the consolidation of 107 program activities into 16 performance partnerships. This consolidation is expected to produce significant savings in staffing and administrative costs in FY 1996 and beyond.

We are presently in the second phase of Reinventing Government and are confronting additional challenges relating to consolidation of activities and realignment and restructuring in order to improve service delivery and reduce administrative costs. We expect to unveil the results of this effort within the next 30 to 60 days.

MINORITY HEALTH

Question. Since both HRSA and CDC have programs aimed at improving the health of minority communities, what is the purpose of the $20 million Office of Minority Health in OASH?

Answer. The Office of Minority Health was formed to coordinate, oversee, and implement the findings and recommendations from the Secretary's Task Force Report on Black and Minority Health. The role of OMH was expanded with the enactment of the Disadvantaged Minority Health Improvement Act of 1990 (P.L. 101-527). The Act broadened the role of OMH to include the coordination and monitoring of activities and existing policies across the Department of Health and Human Services that relate to disease prevention, health promotion, service delivery, and research; provide national leadership in minority health; develop and implement new policies to improve minority health; partnership with states, communities, etc.; develop and implement data policy; and information dissemination with respect to racial and ethnic minority populations.

The overall mission of the OMH is to improve the health status and quality of life for racial and ethnic minority populations in the U.S. by building local capacity for addressing health and human service problems. The CDC and HRSA programs concentrate on very specific issues relative to their program authorities and how these authorities are implemented to address minoroty populations. They neiother seek nor desire to function as the focal point for coorinating minoroty programs.

While the OMH is a staff office to the Assistant Secretary for Health, there are offices of minority health within several PHS agencies which are responsible for coordinating minority health activities specific to their agencies. Five PHS agencies now have offices of minority health (CDC, HRSA, NIH, AHCPR and SAMHSA). The OMH works to minimize duplication by functioning as a cross-cutting coordinating body for the agency minority health directors. The OMH convenes regular meetings conference calls of this coordinating body to share information about specific activities, identify areas for collaboration, and develop synergistic or complimentary activities.

Through the Minority Health Network, OMH plays a major role in providing states with information, training and technical assistance that will help them identify and utilize resources for minority health programs. OMH's focus on coordination is implemented through an existing, decentralized network which places OMH in the ideal position of facilitating the most efficient use of resources through combining national leadership with state and local emphasis.

The OMH has been instrumental in promoting and enhancing minority focused activities at both the state and local levels by providing either "start-up" or additional funds to projects which would not have occurred without OMH participation. For example, OMH and HRSA entered into several memorandum of agreements through which OMH provided funds to HRSA with the stipulation that the health care for residents of public housing program and rural outreach program be expanded to include HIV/AIDS education prevention activities targeting minority populations utilize the coalition approach.

OMH continually advances the collection, reporting and dissemination of national and state-oriented data on racial and ethnic minority populations. Key to this is coordination of efforts at the national and state levels. Through OMH leadership, two recent brochures on mortality and morbidity in Blacks and Hispanics have been produced by the National Center for Health Statistics. In addition, OMH staff serve on numerous committees and workgroups addressing the collection and reporting of race/ethnic specific data which is key to gaging the progress of closing the gap in minority health when compared to white individuals. OMH recently coordinated three Healthy People 2000 progress reviews (African Americans, Asian and Pacific Islanders, and Hispanics) and participated in the progress review on American Indian/Alaska Natives.

By legislative mandate, OMH operates a national minority health resource center that provides states, health care providers, community organizations and minority consumers with information, technical assistance, and identification of resource experts on minority health. In FY 1995, OMH is developing plans for electronic information exchange among Federal and state offices of minority health to assist in information dissemination, identification of public and private funding opportunities and sources of expertise. The system, which will include a dail-in and Internet-accessible electronic bulletin board.

OMH administers several small grant programs which serve to support new and innovative demonstration projects in minority communities. These projects cover a broad array of disease prevention and health promotion services targeting the four minority groups in the U.S. These grant programs were initiated in response to Congressional and Legislative mandates. The Minority Community Health Coalition program focuses on the development community coalitions to address specific risk reduction interventions for the health problem areas identified in the Secretary's Task Force Report. The Bilingual/ Bicultural Service Demonstration Program seeks to increase access to health care services delivering to minority populations with limited English-Speaking proficiency by targeting providers of health care. The purpose of the Family and Community Violence Prevention Program is to implement and assess the use of a community-based model to decrease domestic violence by strengthening family values. This initiative seeks to address the escalating national problems experienced by dysfunctional families and individuals in the minority community precipitated by such conditions as breakdown in family structure, alcoholism and drug abuse the resultant educational deficiencies, poverty, crime and violence which ensue. The focus of these grant programs is carefully discussed and determined in conjunction with the PHS Agency Minority Health Directors so as to avoid program duplication. Our goal is to ensure a complimentary approach in the attainment of the multiplicity of information required to enhance the body of knowledge regarding the health of minority populations.

Although OMH does administer small grant programs, the primary and unique focus of the Office is minority health policy development and program coordination at the PHS and departmental levels. For example, in FY 1995, OMH is developing cooperative agreement mechanisms with seven national minority organizations under which activities within PHS can be conducted in a coordinated and collaborative fashion. Thus, OMH ensures collaboration of effort and reduces duplication across the Department and the PHS agencies.

FAMILY AND COMMUNITY VIOLENCE PREVENTION PROGRAM

Question. Can you provide information on the projects funded under the Family and Community Violence Prevention Program and their effectiveness? (They receive almost $6 million, or 29 percent, of the Office of Minority Health budget).

Answer. The Family and Community Violence Prevention Program is being implemented through a three-year cooperative agreement with a consortium of 19 Historically Black Colleges and Universities (HBCUs) located near public housing projects and low income communities. The Consortium will design, develop, implement and assess Family and Community Prevention Models which maximize the leadership of minority institutions of higher education in: (1) the organization of the "town and gown" initiative with respect to both its own functions and responsibilities and those of entities from throughout the community; (2) the establishment of Family Life Centers on their campuses; (3) the development of educational experiences, preventive measures and therapeutic interventions designed to address the issues of dysfunctional males and families; and (4) the formulation of methods and strategies for execution of the initiatives through a variety of avenues within minority institutions of higher education and throughout the community.

Given that the first year of funding was FY 1994 there has not been an assessment of program effectiveness. Each participating consortium member project contains an evaluation component which will provide information for determining program effectiveness

The 16 projects funded under the Family and Community Violence Prevention Program and, the three new projects to be added in FY 1995 are as follows:

Family Life Centers:

Central State University Family Life Center, Wilberforce, OH: **Center for the Prevention of Violence and the Studies of African-American Males** - Central State University is the lead institution for the Consortium membership. The University is responsible for the overall management, from a technical and budgetary point, as well as evaluation of the entire program. They also provide a Family life Center which will: (1) develop and maintain a violence-reduction network for minority families by enhancing strong linkages with local schools, universities, churches and relevant community based services; (2) provide education and training techniques in violence prevention to children and young adults attending public schools, and young men and women attending Central State University; and (3) conduct basic research on factors associated with violence among young minority families and communities in Ohio.

Chicago State University Family Life Center, Chicago, IL: **Fathers and Sons** - will conduct a Father and Son program to be integrated into its existing Pre-college Outreach Component. This program will provide strategies to present education, training and entrepreneurial skills awareness as a viable alternative for African-American males.

Clark-Atlanta University, Atlanta, GA: **Community Family Life Center for the Prevention of Violence, Alcohol and Drug Abuse in African-American Families and Males** - will be implemented through a campus academic component, community outreach component (Vine City and Eagan Homes), evaluation, and research.

Knoxville College Family Life Center, Knoxville, TN: **Violence Reduction Among Males** - will develop mentoring programs through different campus departments & student organizations.

LeMoyne-Owen College Family Life Center, Memphis, TN: **A Focus on The RReal Men Project** - will revitalize its RReal Men Project to work with 50 African-American at-risk males ages 12-17, and 50 male LeMoyne-Owen College students in an attempt to reduce family and community violence.

Lincoln University of Pennsylvania Family Life Center, Lincoln Univ., PA: **Brothers Lift Brothers Program** - to provide select African-American and Latino youth the opportunity to develop an improved self-image and an increased level of self-esteem by creating an opportunity for bonding with minority males in the collegiate and professional community in the Delaware Valley region.

Morehouse College Family Life Center, Atlanta, GA: **For the Prevention of Violence, Alcohol and Drug abuse Among African-American Families** - to prevent and reduce violence among children from abusive families and who suffered from physical, psychological or emotional abuse in a selected low-income, high crime area of the City of Atlanta.

Morgan State University Family Life Center, Baltimore, MD: **The Center for Educating African American Males** - will train adult males primarily, African American men, to serve as teacher assistants to Kindergarten, first, second and third grade teachers.

North Carolina A&T University Family Life Center, Greensboro, NC: **The Minority Male Initiative** - will expand on High School Achievement Program (Adjusted Males at Dudley High School); Boy Scouts of America; Image Improvement; Self Esteem and Achievement Programs; History Club; Moose Aggie Club; and Men's Council.

Philander Smith College Family Life Center, Little Rock, AK: **Brother to Brother Program** - will address the problems of alcohol, drugs, and violence, particularly among African-American males within the Little Rock area.

Talladega College Family Life Center, Talladega, AL: **Project Reach Out** - will address the problem of delinquency, drug use, gang activity, violence and poverty of the minority disadvantaged in Talladega with a focus on early prevention, cultural awareness and entrepreneurial education. The emphasis will be on training, role modeling and other assistance in an effort to reduce violence in the community.

Texas Southern University Family Life Center, Houston, TX: **Family and Community Violence Prevention Demonstration Program** - will focus its activities on education, health (including mental health), employment and recreation. The two components will be the Macho and Macho Jr. component and the Black Male Initiative on the campus.

Tougaloo College Family Life Center, Tougaloo, MS: **Operation Men** - will reach out to the freshmen at Tougaloo by: (1) serving as role models; (2) interacting on personal levels; (3) sharing experiences and insights; (4) providing leadership; (5) facilitating activities to develop leadership; and (6) by attending cultural exposure activities with students.

University of the District of Columbia, Washington, DC: **Family Life Center** - will target primary and secondary audiences of 60 at risk families which will consist of school-age youth in grades K-12 and the secondary audience which includes the parents of these youth.

Wilberforce University, Wilberforce, OH: **Family Life Center** - will focus on: (1) anti violence week; (2) The Males Rites of Passage; (3) A Male Emphasis Month; and (4) Institute of Fatherhood.

Xavier University Family Life Center, New Orleans, LA: **The African-American Males Collaboration** - will build on: (1) bringing together representation from more than 80 programs already focused on the African-American males in New Orleans; (2) serving as trainer for individuals who work with Black males; (3) offering seminars for pre-college and college males; and (4) providing mentoring for young men in local schools.

In FY 1995 the Consortium will increase it's membership from 16 to 19 HBCUs. Each of the schools shown below will establish a Family Life Center to develop a major comprehensive and community-based collaborative model program that will inhibit anti-social behavior and redirect individual energy toward strengthening African-American, Latino, and other minority family units.

Voorhees College, Denmark, SC:

Southern University, Baton Rouge, LA:

California State College, Los Angeles, CA:

MEDICAL TREATMENT EFFECTIVENESS

Question. Congress intended AHCPR to be the lead agency on effectiveness research. Yet, there are similar research activities elsewhere in HHS, including the CDC, the NIH, and the Preventive Services Task Force that appear to have no coordination. In addition to sharing information, what other efforts has AHCPR made to fulfill this role?

Answer. AHCPR serves as the lead agency for the Department in conducting medical treatment effectiveness research and developing clinical practice guidelines. Some of the effectiveness activities of the Department are not related to medical, or clinical practices.

AHCPR's activities are closely coordinated with other programs of the Department. For example, AHCPR has worked closely with HCFA in setting its research priorities. As a result, in combination, AHCPR's large-scale Patient Outcome Research Teams (PORTs) and its clinical practice guidelines address 10 of the 15 most costly diagnoses for which Medicare patients are hospitalized and 9 of the 15 most costly diagnoses for which Medicaid patients are hospitalized.

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Within the Public Health Service, AHCPR has a number of initiatives to ensure close collaboration. Under the auspices of the Assistant Secretary for Health, AHCPR is working with all PHS agencies to develop a clinical practice guideline database. In the area of effectiveness research, AHCPR's grant solicitations are also coordinated with all agencies of the Public Health Service. AHCPR is currently collaborating with the NIH on a number of trials and other research projects to address questions of effectiveness and cost-effectiveness. A list of those projects is attached.

The recent development of a new research and budget initiative to evaluate the effectiveness of hysterectomy for non-cancerous conditions is an excellent example of how AHCPR has led the public and private sectors to address a long ignored area of medical practice. With input from CDC, AHCPR convened a group of experts in May 1994 to recommend future research strategies in this field. Despite the fact that over 500,000 hysterectomies are performed in the U.S. annually for non-cancerous conditions, there is virtually no evidence of their clinical effectiveness. The need for a series of clinical trials has emerged as the most important research opportunity. AHCPR is in the process of soliciting a set of trials to evaluate hysterectomy in comparison to alternative treatment. The studies for this effort will be funded in FY 1996.

A similar program to develop a research agenda for optimal management of Alzheimer's patients is under development by AHCPR in collaboration with the private Alzheimer's Association.

Examples of AHCPR Collaboration with NIH

Schizophrenia PORT -- NIMH

Starting in FY 1992, NIMH has transferred $300,000 per year to AHCPR to support this 5-year research contract. AHCPR contribution is $700,000/ year. Project was jointly planned by AHCPR and NIMH.

Otitis Media in Children -- NICHD

In FY 1995, AHCPR transferred $440,000 to NICHD. (Between 1991 and 1994, we contributed over $500,000 to this project, which continues a few more years.) ACHPR support makes it possible to obtain data on patients who are NOT in the trial, so that results can be generalized.

Hypertension -- NHLBI

AHCPR plans to contribute approx. $300,000 per year to NHLBI, to support a quality of life component in a major, multi-year clinical trial on hypertension (ALLHAT).

Back Surgery -- NINDS

Starting in FY 1994, AHCPR helps support a clinical trial comparing the effectiveness of conventional with percutaneous discectomy. AHCPR contribution is $200,000 per year for 4 years.

Colon Cancer -- NCI

AHCPR contributes $50,000 per year (1994-1996) to a trial on the effectiveness of minimal access surgery, especially for a component on cost effectiveness and quality of life.

Occupational Therapy --NIA

AHCPR is contributing $50,000 in FY 1994-1996 to a study on the effectiveness of occupational therapy for elderly persons.

Collaboration of AHCPR with Other Agencies

Prostate Cancer -- VA and NCI

In FY 1995, AHCPR transferred $100,000 to the Veterans Administration to help support a large RCT on radical prostatectomy vs. expectant management, which is an offshoot of our Prostate Disease PORT.

End-Stage Renal Disease -- VA

In FY 94 and again in FY 95 AHCPR, transferred $70,000 to the VA to help support a trial comparing two methods to deliver erythropoietin to patients on dialysis. (Study results have substantial potential cost savings.)

Substance Abuse -- SAMHSA

In FY 1995, SAMSHA transferred $100,000 to AHCPR to conduct a needs assessment of substance abuse treatment and prevention servieces among minority porpulations in Hawaii. Agreement continues for 3 more years.

MEDICARE -- SELF REFERRAL OPTION

Question. When do you anticipate the Self Referral Option (SRO) being available to Medicare beneficiaries?

Answer. With HCFA's approval, Medicare risk plans currently have the ability to offer a self-referral option to beneficiaries. Due to limited interest from the HMO industry in this option historically, requests to provide this type of benefit were considered on a case-by-case basis. However, because more plans are expressing interest in this type of arrangement, HCFA would like to ensure that appropriate beneficiary protections are in place.

For this reason, we are currently involved in discussions with a number of health plans, including U.S. Health Care, assessing their commercial experience with this type of product. In addition, we have involved the American Association of Retired Persons to ensure that we are fully considering the perspective of beneficiaries. Our objective is to develop sound Medicare guidelines for the self referral option based on the best practices developed and proven in the commercial marketplace. We are expediting this development process so we can make this beneficiary choice available as soon as reasonable and sound guidelines are available. We believe that building on the experience and lessons learned in the private sector will ensure the best interests of beneficiaries and the industry.

MANAGED CARE

Question. Currently approximately 7% of Medicare beneficiaries are enrolled in Medicare Risk Contract plan. This percentage is far lower than the percentage of private sector beneficiaries enrolled in a managed care plan or the percentage of federal employees who choose a managed care plan as part of the Federal Employee Health Benefits program. Why do you think the Medicare numbers are far below what we see occurring in the private sector and what steps do you plan to take to expand opportunities for managed care under Medicare?

Answer. We believe beneficiaries should have choices, including both managed care options and traditional fee-for-service Medicare. Our general impression is that beneficiary choice of managed care is influenced by a mix of factors. In some areas where there are strong financial incentives for managed care, e.g., areas with low or no premiums, managed care is a relatively popular choice for Medicare beneficiaries. In both Arizona and California, two states with competitive managed care markets and relatively sophisticated beneficiaries, risk plan enrollment is 29 percent of eligible beneficiaries.

For other beneficiaries, however, financial incentives may encourage them to remain in traditional fee-for-service Medicare. For example, many beneficiaries receive Medicare supplemental benefits from their former employers that are tied to traditional fee-for-service Medicare. Also, many observers believe that Medicare beneficiaries are more likely to have established physician ties that they do not want to sever.

The percentage of private sector employees enrolled in HMOs is also likely to be higher because of the way employers structure their health plans. For example, some employers only offer managed care options.

In terms of expanding managed care choices, the Administration is developing two types of options that will offer beneficiaries greater choice. First, as mentioned earlier, HCFA is developing guidelines so that HMOs and CMPs have the choice of offering beneficiaries a self-referral option. This option may appeal to beneficiaries who would be more comfortable in HMOs if they knew they had some insurance coverage if they chose to receive limited care out-of-plan.

In addition, the Administration is developing a proposal to allow Preferred Provider Organizations (PPOs) to participate in the Medicare HMO program. These plans have proven to be popular in the commercial market. Under such plans, beneficiaries would face nominal copayments if they chose a provider in the plan's network but would have the option to go to any physician at any time, if they were willing to pay the higher cost-sharing.

We are also developing a competitive bidding demonstration, in an effort to improve the payment methodology for managed care plans. Competitive pricing has received widespread support and attention from industry, academia and commercial payers, who believe it will result in payments that more accurately reflect the true costs of doing business, in addition to promoting efficiency through greater competition among health plans.

We are also engaged in a wide range of beneficiary information and education activities, including publication and distribution of brochures and manuals on managed care, working with advocacy groups to disseminate information, training district office personnel about Medicare managed care options, and placing information on CompuServe and Internet. We also have initiatives in the works to make publications available in Spanish, Braille, large type, and audio tape formats.

Question. Recent news reports have indicated that the overall cost of health insurance for private employers went down in 1994. We continue to see the cost of the Medicare program going up at a very fast rate. To what do you attribute the difference in the experience between what employers are seeing in the private sector with health care costs and what the government is experiencing in the Medicare program?

Answer. In general, those employers that experienced a decline in health insurance costs in 1994, were taking advantage of a one-time reduction as part of a shift from an indemnity plan to managed care. Premiums still increased across the board, but many companies achieved savings by switching to lower cost managed care plans from their old indemnity plans.

Health care cost growth, measured on a per-person basis, shows Medicare has done quite well in the past and will continue to perform well in the future, compared to growth in private health insurance. For the period 1984-1993, per-person growth in Medicare expenditures averaged 7.7% a year compared to 9.8% a year average growth for private health insurance. Projections for the future show that average per-person growth for Medicare will be quite similar to that for private health insurance.

Figures for 1994 show much lower growth on the private side vs. Medicare. This has to do with increased use of managed care in the private sector in this year. However, these short term results are projected to change in the next couple of years as overall long-term trends show similar future growth.

MEDICARE SELECT

Question. The House Ways and Means Health Subcommittee recently passed legislation making the Medicare Select Program permanent and expanding it to all 50 states. Where does the Administration stand on expanding the Medicare Select program to all 50 states and making the program a permanent part of Medicare?

Answer. The Administration believes Congress would benefit from a review of the complete final evaluation of the Medicare SELECT demonstration before beginning deliberations on Medicare SELECT as a permanent program. We have previously made available the case study portion of the SELECT evaluation. Preliminary results from the remaining pieces of the evaluation are expected the latter part of this summer. The Administration supports a temporary extension of the current 15-State demonstration, in order to provide time to examine what we have learned from the demonstration. This would permit Congress to make any appropriate changes to the SELECT statutory authority, if the evaluation/evidence demonstrates that the program is not fulfilling original expectations.

Research and Demonstration Waivers

Question. Section 1115 of the Social Security Act allows the Secretary of Health and Human Services to authorize "experimental, pilot, or demonstration" projects that will promote program objectives.

States have used this waiver process to expand healthcare coverage to underserved populations and to provide managed care to their Medicaid populations. Massive health care reform died last year, to the waiver process is one of the only avenues States have to implement a type of health care reform.

Section 1115 waivers are referred to as "Research and Demonstration Waivers." According to Health Care Financing Administration (HCFA) criteria for State waiver applications, these waivers can be approved for up to five years.

However, Arizona (who was the first State to have a 1115 waiver approved in 1982) continues to operate its Medicaid managed care program under a 1115 waiver -- twelve years later.

Why should States have to reapply for waivers if their demonstration projects have been implemented successfully?

(Shouldn't the law be changed to allow waivers to be extended indefinitely if they have proved to be successful?)

Answer. With regard to 1115 waivers, these projects are intended to be demonstrations. The overall goal in offering demonstration waivers is to provide States with the opportunity to try innovative projects to better achieve the objectives of the Medicaid program. Demonstrations should last long enough to test and evaluate these innovative aspects. As reflected in the Department's Policies and Procedures on Demonstration Proposals (Federal Register, September 27, 1994), when successful demonstrations prove an appropriate basis, the Department is committed to working with State governments to seek permanent statutory changes incorporating those results into the Medicaid program overall.

The case of Arizona is unique in that the State began its Medicaid program under an 1115 waiver in 1982. Both Congress and the Department have granted several extensions of this waiver. Arizona's demonstration has pioneered the trail for other States in extending managed care. In addition, the Department has been working with the State to develop a program that closely resembles the Medicaid program in current law.

Question. Can you ever terminate a Statewide waiver once it has been approved?

Answer. In accordance with Section 1115 authority, demonstration waivers may be awarded "to the extent and for the period [the Secretary] finds necessary to enable such State or States to carry out such project,..." The law does not intend for waiver projects to extend indiscriminately or indefinitely. Instead, waiver periods are determined by duration necessary to adequately test the demonstration's objectives. This policy is also reflected in the Department's Demonstration Policies and Procedures (Federal Register).

Question. Would you support enactment of legislation which focuses upon insurance market reforms to improve the affordability and availability to small employers and employees?

Answer. The President, in his State of the Union address, reiterated his support for meaningful insurance market reforms. We need to improve how the insurance market operates, particularly for smaller employers and individual purchasers. We look forward to working with Members of Congress on a bipartisan basis to enact meaningful insurance market reforms.

Automation Investment Fund Increase

Question. In a tight budget year, you are proposing a net increase of $648 million, or 11/7%, for administrative expenses of the Social Security Administration. Included in that amount is an increase of $269 million of automation even though I understand that none of the money appropriated last year has yet been obligated. What is the justification for requesting the $269 million for automation when you have not yet spent the money provided this year?

Answer. SSA is requesting $357 million for FY 1996 for SSA's Automation Investment Fund (AIF), the continuation of a five-year, $1.1 billion investment strategy, which features as its key component the intelligent workstation/local area network (IWS/LAN) initiative. IWS/LAN is the foundation for SSA's strategy to improve the quality of service to the American people without substantial increases in workyears. Acquisition and installation of the IWS/LAN platform is taking place over several years.

All of the $308 million appropriated for FY 1994 and FY 1995 has already been obligated or is planned to be obligated/ committed in FY 1995. The largest portion of the funding will go for the initial quantities of workstations and networking equipment. This contract is "on the street." Associated awards include contracts for support services, test equipment, distributed processing and telecommunications to connect SSA offices. The funding was provided by Congress as no-year money to protect against the unpredictability of timing in major systems procurements, which are particularly prone to procurement challenges and delays that can shift final awards and obligation of funds into a subsequent fiscal year.

We note that the Senate (in H.R. 1158, the "Second Supplemental Appropriations and Rescissions Act, 1995") has included a rescission of $88 million from SSA's FY 1995 automation funding. If finally enacted, this rescission will make it virtually impossible to continue the current project schedule and award the IWS/LAN and ergonomic furniture contracts as currently advertised. Such rescission-driven disruptions will compromise the planned automation savings and delay achievement of SSA's full-time equivalent streamlining goals.

A rescission will increase AIF funding requirements in FY 1996 to minimize program disruption, and will create significant delays in installations. SSA needs to retain all current appropriations to proceed on schedule with automation implementation to avoid a sharp deterioration in service as the current terminals wear out and customer service demands increase. This initiative is critical for SSA to obtain workyear savings required to process growing workloads, to improve service and to meet its streamlining goals.

Question. What would be the impact if the Subcommittee did not provide these funds in 1996?

Answer. If SSA is unable to replace aging terminal equipment timely with the IWS/LAN infrastructure, the delivery of basic services--such as taking claims--will be severely hampered. In addition, delay will prevent attainment of near-term productivity improvements and defer productivity and service enhancements that will result from the implementation of agency initiatives, such as the reengineered disability process. Moreover, without IWS/LAN, many of the workyear savings SSA is counting on to achieve the streamlining plan goals and to target service improvements will simply not occur.

HEALTH CARE REFORM TASK FORCE

Question. A recent Washington Post article disclosed that your Department had paid some consultants working on the Administration's health care reform plan consulting fees as high as $49 an hour, allowing some to be paid up to $100,000 while some of the medical professionals who volunteered their time could not even get their travel costs reimbursed. Would you provide the Subcommittee information on how much your Department spent on consultants and contractors to assist in the development of the Administration's health care reform plan? From which accounts were these funds paid? What criteria were used in determining reimbursement schedules?

Answer. HHS created a separate account within the Office of he Assistant Secretary for Planning and Evaluation, from which the isbursements for expenses related to the President's Task Force on ational Health Care Reform and its Working Group were made. Total penditures from this account during FY 1993 came to $1,179,798. llowing is a breakdown of these expenses by major category:

Salaries and Benefits	$895,208
Travel	19,756
Contracts:	
Computer Support	12,052
PHS/AHCPR	30,000
White House	215,000
Temporary Hires	7,312
Total	264,364

Non-Contract Services	385
General Printing Office (GPO)	69
Misc.	16
TOTAL	$1,179,798

Under separate cover I am also providing a copy of the 20-page General Accounting Office testimony entitled "Cost of Health Care Task Force Related Activities," as presented before the House Appropriations Subcommittee on Treasury, Postal Service, and General Government on March 14, 1995. This testimony estimates the total costs of the Task Force, including--but not limited to--the categories that you requested. In all instances, the amounts of consulting fees paid were set according to established standards for persons with certain credentials, as determined by the professional personnel staff within HHS. The policy regarding travel reimbursement for Working Group members was to cover the cost of one round-trip between home and Washington, DC; please see the March 25, 1993, memorandum regarding travel reimbursement.

MEMORANDUM

Department of Health and Human Services,
Office of the Seretary,
Washington, DC.

Date: March 25, 1993

Note To: Health Care Task Force Members

From: Manager Special Initatives

Subject: Reimbursement For Travel

We are now processing reimbursement vouchers for transportation costs for one round trip fair between your point of origin and Washington D.C. Please give a copy of your airline, train, etc., ticket to the administrative support person (Marion or Shandon). Do not give them the original. Ground transportation, other than commuting from point of origin to Washington, will not be reimbursed.

Please call Al Cutino, 690-8794 if you have any questions.

Steve Pigeon

U.S. General Accounting Office,
Washington, DC.

Cost of Health Care Task Force Related Activities

Statement of J. William Gadsby, Director, Government Business Operations Issues, General Government Division

Mr. Chairman and Members of the Subcommittee:

I am pleased to submit for the record the information we have collected as of March 9, 1995, concerning the costs incurred by the government in connection with the President's Task Force on National Health Care Reform.

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We were requested to develop this information by Rep. Ernest Istook, Rep. William Clinger, Rep. William Lightfoot, Rep. Frank Wolf, Rep. Bob Barr, and Senator Paul Coverdell. Rep. Istook asked that we prepare, and submit in the form of a statement for the record for this hearing, a status report on the costs we have collected to date, even though our work is still ongoing.

BACKGROUND

On January 25, 1993, President Clinton established the President's Task Force on National Health Care Reform. The President charged the Task Force with listening to "all parties" and preparing health care reform legislation to be submitted within 100 days of the start of the new administration. The 12-member Task Force, chaired by the First Lady, consisted of the Secretaries of the Departments of Commerce, Defense, Health and Human Services (HHS), Labor, the Treasury, and Veterans Affairs; the Director of the Office of Management and Budget (OMB); the Chairman of the Council of Economic Advisors; and three White House advisors.

Also on January 25, the President announced the formation of an Interdepartmental Working Group to gather information and develop health care reform options. Materials prepared by the Working Group were reviewed by the Task Force. The Interdepartmental Working Group was headed by Mr. Ira Magaziner, a Task Force member who was the senior advisor to the President for Policy Development.

The White House Office of Policy Development (OPD) managed the overall effort. OPD was funded by an interagency transfer of funds from HHS to OPD. According to Task Force information, the Interdepartmental Working Group included 628 members, who were primarily permanent federal government employees from both the executive and legislative branches, as well as consultants,

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special government employees, and volunteers. The Interdepartmental Working Group was organized into 15 Cluster Groups which were subdivided into a number of smaller working groups that worked mainly in the Old Executive Office Building, although meetings were held occasionally at other locations, such as other executive branch offices.

The Task Force, Interdepartmental Working Group, Cluster Groups, as well as the smaller working groups, were disbanded on May 31, 1993, after which the administration's health care reform effort focused on preparing health care reform legislation. The President introduced his health care reform legislation on November 20, 1993.

In February 1993, the Association of American Physicians and Surgeons filed a lawsuit against the Task Force, seeking access to the Task Force meetings under the Federal Advisory Committee Act (FACA). The Association contended that because the First Lady was a private citizen, the Task Force, as a group composed solely of full-time government officers or employees, was not exempt from FACA and, furthermore, that the Interdepartmental Working Group was itself an advisory committee. On March 10, 1993, the U.S. District Court for the District of Columbia held that the Task Force was subject to FACA but held that the Interdepartmental Working Group was not an advisory committee.

Both parties appealed this decision to the Court of Appeals, which on June 22, 1993, held that the First Lady was an employee for purposes of FACA and that the Task Force she chaired was therefore not subject to that statute. The Court of Appeals returned the case to the District Court for further proceedings on the status of the Interdepartmental Working Group.

On December 21, 1994, the District Court dismissed the case as moot after the defendants released the documents created by the Interdepartmental Working Group, treating them as though the

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Interdepartmental Working Group had been subject to FACA. The Court also indicated that it was requesting the U.S. Attorney for the District of Columbia to determine whether Ira Magaziner, a member of the Task Force and head of the Interdepartmental Working Group, committed the criminal offense of contempt of court or perjury in connection with a declaration he made regarding the membership of the Interdepartmental Working Group.

The Association of American Physicians and Surgeons has applied for reimbursement of attorneys' fees in the amount of $374,070. The District Court suspended consideration of this request until the question of criminal offense referred to the U.S. Attorney is resolved.

Our requesters asked that we determine the costs incurred by the executive branch in connection with all activities of the President's Task Force on National Health Care Reform, including the costs of developing the options and proposed legislation and engaging in the litigation.

SCOPE

To accomplish our objective, we asked the 10 agencies that worked with the Task Force to provide data on the costs they incurred. These agencies were identified as having members who served on the Task Force, Interdepartmental Working Group, Cluster Groups, or other working groups, and included the Departments of Commerce, Defense, Education, HHS, Justice, Labor, the Treasury, and Veterans Affairs, as well as the Executive Office of the President and, separately, OMB.

Our requesters asked that we include all direct and indirect costs, including the value of time spent by government employees on these matters and an estimate of future costs of the litigation. Further, we were asked to obtain costs for three phases of the effort: (1) developing the administration's health care reform proposal from January to May 1993, (2) preparing the administration's health care reform legislation from June to November 1993, and (3) working on matters relating to Association of American Physicians and Surgeons et. al. v. Clinton et. al. from February 1993 to January 1995, including an estimate of future costs of litigation.

METHODOLOGY

We began this assignment in November 1994 by meeting with officials from the Executive Office of the President, HHS, and the Department of Labor. At these initial meetings, it became clear that there were differences of opinion regarding who composed the Task Force, what costs were attributable to it, and what time period should be examined. Further, it became clear that the agencies in many cases did not have accounting records from which to obtain the information needed and that, for some costs, agencies would have to rely on estimates, particularly regarding the amount of time spent by employees on Task Force activities.

As a result of those initial meetings, we developed a standard questionnaire that was sent to all 10 agencies on December 2, 1994. The questionnaire described the scope of our inquiry, contained a common definition of terms, and asked that the agencies provide actual or estimated costs in specified categories, such as personnel, office space, telecommunications, travel, procurements, and other expenses. We asked the agencies to reconstruct or estimate costs incurred when no readily available records of costs were available. We also asked that the data be provided to us by January 13, 1995.

To determine personnel costs, we asked the 10 agencies to provide data on time expended by government employees, special government employees, consultants, and Schedule C employees who worked on

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the Task Force, the Interdepartmental Working Group, the Cluster Groups, and the smaller working groups as well as time data on other agency employees who provided support to them. The value of personnel time was to be calculated using time data and salaries. When detailed records of time spent were not available, the agencies were asked to provide estimates of the amount of time spent by employees.

We also asked agencies to provide the location, cost, and square footage of government owned and leased office space that was used for meetings, as well as the amount of time that this space was used for such meetings. With regard to telecommunications services, we asked agencies to provide the costs of telephone services incurred for the Task Force activities, including the total charges for long-distance calls and the cost of any additional telecommunications equipment and services that were acquired.

Further, we asked agencies to provide the costs of local and official travel incurred by agency employees, special government employees, consultants, and volunteers. We also asked agencies to provide the costs of all procurements that were made for goods and services, such as those for research, computers, and printing. Finally, we asked agencies to provide the costs of miscellaneous expenses, such as those for postage, couriers, and photocopying.

We asked the agencies to provide all available supporting documentation and, when estimates were used, to provide an explanation of the basis used to make the estimate. Because agencies' accounting systems generally did not allocate costs to functional areas such as the Task Force effort, and because much of the time data was based on employees' personal notes and memories, we were not able to validate the accuracy of the data provided by the agencies.

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RESULTS TO DATE

As of March 9, 1995, we had received responses from all 10 agencies. However, much of the information we have received is not complete. More specifically:

-- The cost data we have received from HHS is incomplete in that it does not include the amount or value of time spent by all HHS employees working on Task Force matters. HHS has sent a questionnaire to 201 HHS participants to estimate the amount of time spent on Task Force activities and to identify other HHS employees who provided support services. That data is still being collected. We calculated the value of time spent by 60 HHS employees who provided data as of March 9, 1995, and included those costs in this report.

-- The Department of Commerce has not yet provided travel costs for one employee.

-- The Department of Justice has not yet provided a list of employees who worked on Task Force activities to support its summary of personnel cost data.

-- The Executive Office of the President (EOP) did not provide us with information that we requested in three major categories: (1) costs incurred after May 31, 1993; (2) the amount of time expended by EOP personnel, except for the Office of Policy Development and OMB; and (3) costs associated with litigating Association of American Physicians and Surgeons et. al. v. Clinton et. al. We have renewed our request to EOP to provide us with the omitted information within the next 2 weeks.

-- OMB did not provide information on: (1) costs incurred after May 31, 1993; (2) the amount of time expended by OMB personnel, excluding its Health Policy Unit, and (3) costs associated with litigating *Association of American Physicians and Surgeons et. al. v. Clinton et. al.* We are asking OMB to provide this information within the next 2 weeks.

-- The Treasury Department provided the least information of the 10 agencies. It did not provide information on: (1) the amount of time expended by Treasury personnel and their salaries; (2) costs incurred after May 31, 1993; and (3) costs associated with litigating *Association of American Physicians and Surgeons et. al. v. Clinton et. al.* We are asking Treasury to provide this information within the next 2 weeks.

The cost information received to date shows that the 10 agencies reported spending about $9.6 million on matters relating to the Task Force. As shown in table 1, reported costs ranged from $43 at the Treasury Department to about $6.4 million at HHS, although the cost information from these agencies, as well as some of the others, is incomplete.

Table 1: Health Care Task Force Costs by Agency

Agency	Cost
Commerce	$235,798[a]
Defense	523,617
Education	49,733
Executive Office of the President	211,095[b]
HHS	6,419,653[c]
Justice	462,330
Labor	333,150
OMB	142,135[d]
Treasury	43[e]
Veterans Affairs	1,262,158
Total	$9,639,712

[a] Excludes one employee's travel costs, which have not yet been provided.

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[b] The EOP cost excludes the Office of Management and Budget costs which we have asked for separately and also excludes the value of EOP personnel time; costs incurred after May 31, 1993; and litigation costs, which have not yet been provided. EOP costs reported above were paid by an interagency transfer of funds from HHS to the White House Office of Policy Development.

[c] Excludes $211,095 in costs incurred by EOP but ultimately paid by HHS. Includes the value of time spent by 60 HHS employees. Time data on at least 141 other HHS employees are still being collected.

[d] The OMB cost excludes the value of OMB personnel time (except for members of its Health Policy Unit); costs incurred after May 31, 1993; and litigation costs, which have not yet been provided.

[e] The Treasury Department cost excludes the value of all Treasury personnel time; costs incurred after May 31, 1993; and litigation costs, which have not yet been provided.

Source: Data provided by the Departments of Commerce, Defense, Education, HHS, Justice, Labor, the Treasury, and Veterans Affairs, as well as the Executive Office of the President and OMB.

Table 2 shows the costs received to date, broken down by phase of effort. The 10 agencies reported that they spent about $3.5 million on developing the administration's health care reform proposal from January to May 1993, $5.8 million preparing the administration's health care reform legislation from June to November 1993, and over $300,000 working on matters relating to Association of American Physicians and Surgeons et. al. v. Clinton et. al. from February 1993 to January 1995.

None of the agencies reported as a future cost the possible reimbursement of attorneys' fees for the Association of American Physicians and Surgeons or any other possible litigation. Until the District Court decides this request, it is not possible to determine what amount, if any, will have to be paid or what funds, if any, will be used.

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Table 2: Health Care Task Force Costs by Phase of Work

Agency	Develop proposal January-May 1993	Prepare legislation June-November 1993	Support litigation February 1993-January 1995	Total
Commerce	$224,229[a]	$11,569	$0	$235,798
Defense	508,849	14,768	0	523,617
Education	0	49,733	0	49,733
Executive Office of the President	211,095	Not yet provided	Not yet provided	211,095[b]
HHS	893,561[c,d]	5,520,766[d]	5,326[d]	6,419,653
Justice	69,205	67,605	325,520	462,330
Labor	187,341	145,809	0	333,150
OMB	142,135[e]	Not yet provided	Not yet provided	142,135
Treasury	43[f]	Not yet provided	Not yet provided	43
Veterans Affairs	1,262,158	0	0	1,262,158
Total	$3,498,616	$5,810,250	$330,846	$9,639,712

[a] Excludes one employee's travel costs, which have not yet been provided.

[b] The EOP cost excludes the Office of Management and Budget costs, which we have asked for separately, and also excludes the value of EOP personnel time; costs incurred after May 31, 1993; and litigation costs, which have not yet been provided. EOP costs reported above were paid by an interagency transfer of funds from HHS to the White House Office of Policy Development.

[c] Excludes $211,095 in costs incurred by EOP but ultimately paid by HHS.

[d] HHS sent questionnaires to 201 HHS Task Force participants to estimate the amount of their time spent on Task Force activities and to identify other HHS employees who provided support services. Sixty HHS employees have returned the questionnaires to date. All 60 reported they worked on preparing the health care reform proposal, 44 indicated they worked on preparing legislation, and 7 indicated they worked on the litigation. Another 141 HHS employees have not yet responded to the questionnaire.

[e] Includes 5 months of staff time for 5 OMB employees who were members of its Health Policy Unit. OMB reported that these 5 members of OMB's Health Policy Unit "devoted substantially all of their efforts to HCTF activities." OMB did not provide the value of time spent by other OMB employees who worked on Task Force activities.

[f] The Treasury Department cost excludes the value of Treasury personnel time; costs incurred after May 31, 1993; and litigation costs, which have not yet been provided.

Source: Data provided by the Departments of Commerce, Defense, Education, HHS, Justice, Labor, the Treasury, and Veterans Affairs, as well as the Executive Office of the President and OMB.

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Table 3 shows costs by category. The largest cost categories were for personnel--$3.8 million--and for procurements--$5.3 million. HHS reported $5.0 million of the $5.3 million in procurements. HHS's procurement costs included $3.3 million in outlays for research contracts by the Public Health Service, the Health Care Financing Administration, and the Assistant Secretary for Planning and Administration during fiscal years 1993 and 1994, as well as $1.6 million for computer time.

Table 3: Health Care Task Force Costs by Category

Agency	Personnel	Telecommunications	Travel	Procurements	Office space	Other expenses	Total
Commerce	$173,419	$0	$1,379[a]	$36,000	$0	$25,000[b]	$235,798
Defense	298,746	200	12,016	211,920	115	620[c]	523,617
Education	48,207	Data not available	1,526	0	0	0	49,733
Executive Office of the President	Not yet provided	31,525[d]	41,419[d]	46,093[d]	86,748[d]	5,310[d]	211,095[d]
HHS	1,237,713[e]	4,706	140,259	4,975,978[f]	57,092	3,905[g]	6,419,653
Justice	462,280	Data not available	0	0	0	50[c]	462,330
Labor	319,429	Data not available	1,721	12,000	0	Data not available	333,150
OMB	128,320[h]	Data not available	35[i]	0	13,780	Data not available	142,135
Treasury	Not yet provided[j]	Data not available	43	0	0	Data not available	43
Veterans Affairs	1,162,158	Data not available	100,000	0	0	Data not available	1,262,158
Total	$3,830,272	$36,431	$298,398	$5,281,991	$157,735	$34,885	$9,639,712

[a] Excludes one employee's travel costs, which have not yet been provided.

[b] Computer time.

[c] Photocopying.

[d] The EOP cost excludes the Office of Management and Budget costs, which we have asked for separately, and also excludes the value of EOP personnel time; costs incurred after May 31, 1993; and litigation costs, which have not yet been provided. EOP costs reported above were paid by an interagency transfer of funds from HHS to the White House Office of Policy Development. The "other" category includes costs reported by EOP for "transportation of things, rent, and utilities," which were not reported in the other categories.

[e] Includes Schedule C employees, special government employees, and consultants. HHS sent questionnaires to 201 HHS employees to estimate the amount of their time spent on Task Force activities and to identify other HHS employees who provided support services. This cost includes the value of time spent by 60 HHS employees who have returned the survey to date.

[f] Includes outlays for research contracts during fiscal years 1993 and 1994. HHS reported that because health policy research is an ongoing activity of the Department, officials evaluated and identified all contracts undertaken by the Public Health Service, Health Care Financing Administration, and the Office of the Assistant Secretary for Planning and Evaluation to determine which ones were designed or, if previously under way, were substantially modified, in order to be used in developing the President's proposal.

[g] Remainder of $215,000 interagency transfer from HHS to the White House Office of Policy Development, of which EOP incurred $211,095 in costs.

[h] Includes 5 months of staff time for 5 OMB employees who were members of its Health Policy Unit. OMB reported that these 5 members of OMB's Health Policy Unit "devoted substantially all of their efforts to HCTF activities." OMB did not provide the value of time spent by other OMB employees who worked on Task Force activities.

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[1] Reported cost to OMB of the Deputy Director's travel with the First Lady on Air Force One on March 15, 1993.

[1] Although the Treasury Department provided the names of 50 Departmental employees who worked on Task Force activities, it did not provide the amount of time they spent or their salaries.

Source: Data provided by the Departments of Commerce, Defense, Education, HHS, Justice, Labor, the Treasury, and Veterans Affairs, as well as the Executive Office of the President and OMB.

As previously mentioned, we are waiting to receive additional information from the Departments of Commerce, HHS, Justice, and the Treasury, as well as EOP and OMB. We will issue a final report after all of the costs have been provided.

Teenage Pregnancy

Question. In the response to a letter I sent to you on March 1 regarding the issue of teen pregnancy, you said that the Department has a number of research and demonstration programs underway related to teenage pregnancy and that you were learning more about what works to prevent teen pregnancy. Specifically, what research and demonstration projects are underway at HHS? Could you share with us some of the lessons you have learned from these projects?

Answer. The Department is supporting a wide array of important studies to help us understand the most effective ways of reducing teenage pregnancy. In general, researchers have found that the more comprehensive the intervention the more likely it is to be effective. While many interventions have tried to address this complex problem few have been rigorously evaluated to demonstrate a substantial effect in reducing teenage childbearing. We intend to build on what we know works to strengthen our efforts to reduce teenage pregnancy. The following is a description some of the activities we currently have underway. We would be happy to provide you with any additional information on these projects.

The Office of the Assistant Secretary for Planning and Evaluation has funded three studies concerning adolescents related to pregnancy prevention. The first study will produce a comprehensive literature review of adolescent sexual activity, contraception and childbearing (Volume I) and a review of adolescent pregnancy prevention programs which have been evaluated (Volume II). This study is currently in draft and is expected to be released in April 1995.

The second study is an analysis of three national databases to generate information on adolescents' use of time and its relationship to particular outcomes, such as high school dropout and substance abuse. The third study uses Census Data to provide information on living arrangements, transfer and earned income for individuals and households, poverty, nativity, age and ethnic background for mothers who are adolescents and in their early 20s in all states.

The Title X Family Planning Program includes a Service Delivery Improvement program which supports research on family planning service delivery and client decision-making and characteristics. Approximately one-third of the clients served by Title X supported clinics are women under age 20.

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The Title XX Adolescent Family Life Program sponsors peer reviewed research on factors that affect adolescent sexual behavior, including family involvement and demographics. It also supports research on adoption and services to pregnant and parenting adolescents. Grant funding is provided each year for education and skills building projects to prevent pregnancy by encouraging adolescents to abstain from sexual activity. In addition, funds are provided for the "CARE" demonstration project, which provides case-managed services to pregnant adolescents and their families.

The Office of Population Affairs recently awarded a five year, $500,000 grant to the Alan Guttmacher Institute to conduct wide-ranging data analyses on family planning need and service availability, with a focus on adolescents and lower income women. The goal of the project is to learn how to reduce unintended pregnancies and reduce the number of teenage pregnancies.

The National Institute of Child Health and Human Development (NICHD) at the National Institutes of Health is conducting a comprehensive, prospective longitudinal national study on adolescent health and the context of adolescent behavior and outcomes. The study responds to a Congressional mandate for a national study of adolescent health (Public Law 103-43, Title X, Subtitle D, Section 1031). It is being conducted by a team of scientists from six universities and research centers across the country. The project includes a data collection core as well as six component projects built around the unique design features of the study. Prompt sharing of nonidentifiable data with other researchers is planned to ensure that the study's potential contribution to scientific knowledge is fully realized.

NICHD will be awarding grant funds for five projects to investigate unwanted and unintended pregnancy in the United States. Two of the projects will be focus on adolescents.

The Healthy Start demonstration project, a five year infant mortality initiative, was funded in 22 sites. Healthy Start emphasizes coordinated services to pregnant and parenting women, including adolescents. A majority of the grantees have used the funds to provide an array of pregnancy prevention services, including male interventions and school-based health services. An extensive evaluation component is starting this year.

Question. Last year, this committee provided $4.5 million to CDC to support demonstration grants for the development of community partnership coalitions for the prevention of teen pregnancies. Could you tell me when the request for proposals will be issued for this program and approximately how many grants will be awarded?

Answer. CDC will award FY 95 funds by September 30, 1995 to support up to 12 community-wide coalitions within communities that have high rates of teen pregnancy.

UNDOCUMENTED ALIENS

Question. Have you proposed legislation for the proposed immigration initiative to reimburse States for the cost of providing medical care to undocumented aliens?

Answer. The Administration is currently drafting legislation. We plan to propose it later this year.

SOCIAL SECURITY AUTOMATION

Question. A review by the Office of Technology Assessment indicates that your latest plan for purchase of Local Area Networks (LANs) has a unit cost increase of one-third over the original estimate. How do you justify the significant increase in per unit

LAN costs during a time when commercial LAN costs have been declining?

Answer. The original FY 1994 Automation Investment Fund (AIF) budget request estimated that the purchase of the networked intelligent workstation hardware and software portion of the IWS/LAN initiative would require $341 million over FYs 1994-98. The FY 1996 AIF budget reflects an estimate of $397 million for this purpose over FYs 1994-98. Since the FY 1994 budget was submitted, requirements have become better defined and SSA has adjusted both the quantities and specifications included in its intelligent workstation hardware and software acquisition to provide the technology infrastructure required to support its workloads, including those associated with the reengineered disability process, over the system life for this investment.

Question. Provide a technical description of the equipment proposed to be purchased, and the number and types of IWSs and LANs, and any differences between the revised fiscal year 1996 plan and the original proposal.

Answer. The intelligent workstation hardware and software acquisition for the first phase of the IWS/LAN initiative has been issued and is scheduled for award in FY 1995. It will provide up to 1,742 local area networks with 56,500 intelligent workstations, as well as other related equipment and services. As for differences between the FY 1994 and FY 1996 budget requests, the hardware and software originally planned has been updated to reflect current product offerings, as well as updated technical specifications (including enhanced processor speed and increased memory capacities) and training support to meet SSA's projected requirements over the system life. However, the same technical approach endorsed by the Office of Technology Assessment and others is being followed.

Question. Office of Technology Assessment estimates the furniture and site prep costs per workstation is $8,588, excluding IWS/LAN equipment cost. How do you justify this rather sizable cost per workstation?

Answer. An arbitrator's decision and labor relations agreements require that SSA provide ergonomic furniture with adjustable work surfaces to protect the health of employees. Most ergonomics experts agree that a sit-stand workstation is the best way to protect individuals from repetitive motion injuries, including carpel tunnel syndrome. The average cost for furniture and site preparation per workstation, excluding IWS/LAN equipment costs, is estimated to be about $7,100. Market surveys and initial acquisitions indicate that the average unit cost for workstations meeting the required ergonomic specifications will be almost $5,100 for the walls, desk and work surface, including installation. The average costs for site preparation, including electrical work, cabling and surveys, is about $2,000 per work station.

Question. Why does it cost $474 million in fiscal year 1996 for ergonomic furniture and site preparation?

Answer. The $474 million is the estimated cost for ergonomic furniture ($294 million) and site preparation ($180 million) for the period FY 1994 through FY 1998. The FY 1996 budget requests $98 million for ergonomic furniture and $69 million for site preparation from FY 1996 appropriations. When combined with AIF funds appropriated in FYs 1994-95 for these purposes, the totals are $171 million for ergonomic furniture and $118 million for site preparation. Site preparation and ergonomic furniture installations precede the installation of IWS/LANs. This funding is required in FY 1996 to ensure that sites are ready on schedule for IWS/LAN Phase I hardware and software installations.

Question. What documentation do you have to support the $94 million request for the re-engineering cost component?

Answer. The 5-year funding level of $94 million for this cost component will support IWS/LAN-related technology investments that are required to attain the cooperative processing and paperless processing goals documented in the Agency Strategic Plan (ASP). Through FY 1996, no funding is requested for the ASP/Reengineering cost component. The Agency is refining its plans in this area and will provide appropriate supporting information when funding is requested.

ENERGY BURDENS ON LOW-INCOME

Question. The National Consumer Law Center just published a new study "Energy and the Poor: The Crisis Continues" that refutes the notion that energy burdens on low-income households are no longer the problem it was in the late 1970's.

Do you agree with the data analysis of this study, that concludes for the period 1988 to 1992, energy prices increased at a rate faster than the growth in the income of poor families?

Answer. We have just received the National Consumer Law Center study and, as we have not had time to analyze it, we are not in a position to comment on the report at this time.

Our preliminary analysis of energy prices suggests that, for the period of 1988-1992, average energy prices rose at about the same rate as incomes of households below 150% of the poverty level.

BUYOUTS

Question. Provide for the record, agency by agency, the number and cost of employee buyouts during the last year, and projections for fiscal year 1995.

Answer. During fiscal year 1994, the Department of Health and Human Services approved 646 buyouts as follows:

Component	Number	Buyout Cost	9% for Early Retirement
Headquarters (Dept. Mgmt.)	92	$2,277,644	$181,741
Office for Civil Rights	12	300,000	16,715
Health Care Financing Admin.	112	2,799,776	6,626
Public Health Service	430	10,591,760	872,623
Department Totals	646	$15,969,180	$1,077,705

During fiscal year 1995, the Department of Health and Human Services plans to approve 1504 buyouts, with projected costs as follows:

Component	Number	Buyout Cost	9% for Early Retirement
Headquarters (Dept. Mgmt.)	233	$5,391,000	$312,000
Office of Civil Rights	19	475,000	66,000
Inspector General	30	750,000	40,000
Public Health Service	1,086	26,623,000	2,145,000
Administration on Aging	22	550,000	0
Administration for Children and Families	114	2,850,000	320,000
Department Totals	1,504	$36,639,000	$2,883,000

HCFA -- STAFFING INCREASES

Question. You are asking for 28 more positions in the Health Care Financing Administration in 1996 than you had in 1995, which appears to involve a transfer of regional office employees. Please Explain.

Answer. The Health Care Financing Administration (HCFA) is asking for only 18 more positions in FY 1996 than FY 1995, from 4,129 FTEs to 4,147 FTEs. Without an increase of 43 FTEs to support a transfer of functions, HCFA's ceiling would have declined by 25 FTEs to 4,104 FTEs in FY 1996.

The Department's elimination of the Regional Administrative Support Centers (RASC) and the movement of SSA to an independent agency will require changes in the handling of regional administrative, financial and personnel support services. In a joint effort between the Department and OPDIVs, the Office of the Secretary's regional functions will be moved to the OPDIVs.

Due to the Office of the Secretary's regional restructuring and streamlining, HCFA will receive 43 FTEs to perform regional functions previously supported by the Office of the Secretary at a comparable level of 74 FTEs. The fact that HCFA took over these functions with 43 FTEs reflects a savings of 31 FTEs.

HCFA -- STAFFING REDUCTIONS

Question. Why shouldn't the Health Care Financing Administration take a 2 percent staffing cut, like most other Federal agencies? Please provide for the record which components of the Health Care Financing Administration would be reduced if you had to take a 2 percent staffing cut.

Answer. HCFA is in the midst of an agency-wide reorganization. The Agency is shifting resources to high priority activities while flattening its organizational structure and empowering employees. This process is proceeding component by component with many components more than doubling the ratio of employees to supervisors. Because so many components and activities within HCFA are being reorganized at this time, the Agency cannot determine in which components a potential 2 percent cut in staffing would be taken.

Redesigned Disability Process

Question. You are requesting $20,000,000 to begin implementing a redesigned disability process. How much will this entire process cost to fully implement? When will we begin to see budgetary savings?

Answer. In September 1994, SSA's Disability Reengineering Team projected that SSA would realize about $700 million in net administrative costs avoidance through the project life period (FY 1995 through FY 2001) and also would avoid ongoing administrative costs of about $300 million annually beginning in FY 2001. The net savings of $700 million includes:

- estimated cumulative administrative costs during the project of about $150 million. Most of these costs would be directed to special workforce training on the new process, and
- estimated cumulative administrative savings of about $850 million from more efficient use of Federal and State workyears to process anticipated disability initial claims and appeals workloads during the project life period.

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Question. Why shouldn't we expect you to implement these changes within existing resources, since they are supposed to simplify the disability process?

Answer. Funds are needed during the implementation and development period to retrain staff, secure outside consultant services, retrofit facilities, and change publications/forms, etc. Although in FY 1996 these start-up costs outweigh any immediate FY 1996 savings, net savings are expected to begin by FY 1997 with significant net savings from FY 1998 and beyond.

SSA STAFFING LEVELS

Question. Provide for the record a table comparing SSA staffing levels for each major component of headquarters operations, from fiscal 1993 through 1996.

Answer. The table attached summarizes actual and estimated full-time permanent levels for each SSA staff component included in SSA's long-range streamlining plan, including central office and regional office staff employment, many of which process measurable workloads. For example, this includes staff offices responsible for policy; procedures; public affairs, including inquiry writers; personnel; labor relations; procurement; budget; finance, including bill paying; quality assurance reviewers; facilities maintenance;, security; etc., as well as staff functions in workload processing operations in the Office of Disability and International Operations, the Office of Central Records Operations and the Office of Hearing and Appeals (OHA). It excludes SSA's field offices, teleservice centers, program service centers, OHA workload operations and systems operations/development personnel.

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Full-time Permanent (FTP) Employment in Major SSA Staff Components

Component	FY 1994 Start of Year	FY 1994 End of Year	FY 1995 End of Year	FY 1996 End of Year
Deputy Commissioner for Human Resources	538	520	455	442
Deputy Commissioner for Finance, Assessment and Management	2,744	2,648	2,392	2,336
Deputy Commissioner for Programs	684	654	591	582
Deputy Commissioner for Policy & External Affairs	657	630	563	557
Deputy Commissioner for Operations Support Staff	261	225	219	215
Regional Office Staff	1,541	1,447	1,286	1,256
Other	388	373	316	309
Total	6,813	6,497	5,822	5,697
(Percent Change)	--	(-4.6%)	(-14.5%)	(-16.4%)

NOTE: Includes central office and regional office staff employment, many of which process measurable workloads. For example this includes staff offices responsible for policy; procedures; public affairs, including inquiry writers; personnel; labor relations; procurement; budget; finance, including bill paying; quality assurance reviewers; facilities maintenance; security; etc, as well as staff functions in workload processing operations in the Office of Disability and International Operations, the Office of Central Records Operations and the Office of Hearings and Appeals (OHA). It excludes SSA's field offices, teleservice centers, program service centers, OHA workload operations and systems operations/development personnel. Table excludes about 2,850 FTP staff in Office of Systems. Table excludes FTP transfers resulting from SSA's separation from the Department of Health and Human Services.

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Question. What would be the impact of reducing headquarters staff 10 percent below your fiscal 1996 request level?

Answer. SSA is already reducing staff by 15 percent from the start of FY 1994 through FY 1996. SSA's FY 1996 budget request reflects significant reductions in these staff components beyond what normal attrition experience (e.g., retirements, transfers to workload operations, etc.) would produce. These components are already targeted for reductions of at least 10 percent by the end of FY 1995 and 15 percent by the end of FY 1996.

Question. You are requesting a cut of 896 full-time equivalent positions, while at the same time adding 823 work years for overtime, at the Social Security Administration. Why not just keep more regular employees, instead of paying overtime?

Answer. The reduction of 896 FTEs shown in SSA's FY 1996 budget request reflects employment reductions required under the provisions of the Federal Workforce Restructuring Act (i.e., the buyout legislation) as well as SSA's own long-range streamlining plan. That plan calls for reductions in FTE employment through FY 1999 based on automation, procedural improvements and workforce restructuring and delayering efforts consistent with government-wide streamlining plans.

Although FY 1996 FTE levels are being reduced consistent with government-wide efforts, the requested overtime levels are needed to ensure that anticipated workloads can be processed in a timely manner.

Question. Doesn't overtime cost more than regular pay?

Answer. Although the hourly cost of overtime pay is higher than regular hourly pay rates, SSA's long-range plan to reduce staffing levels assumes that the first step in that reduction will begin in FY 1996. Although significant levels of overtime are needed in FY 1996 to process workloads, long-term reductions in permanent SSA staffing through automation and procedural improvements, restructuring, etc., will more than outweigh the short-term overtime increases.

Peer Review Organizations

Question. Your budget justification shows an increase in funding for Peer Review Organizations (PROs) from $54.8 million in fiscal 1995 to $777.2 million in fiscal 1996. Explain this difference, and summarize how the fiscal 1996 estimate will be used. Provide a multi-year table of annual obligations.

Answer. We award PRO contracts for 3-year periods. We incur the greatest costs in the first year of each contract cycle, when we sign most contracts. Because FY 1995 is the last full year of the current 3-year contracts, we are incurring relatively little additional obligations. Next year (FY 1996) we expect to award all or most of the 53 new PRO 3-year contracts, thus incurring rather significant costs.

HCFA continues to move forward with the Health Care Quality Improvement Program (HCQIP) in the 1996-1998 contract cycle. This program refocuses PRO activity from review of individual cases toward analyzing and improving patterns of care.

Estimate obligations (in millions) for the 1996-1998 funding period are as follows:

FY 1996	FY 1997	FY 1998
$777.2	$21.7	$21.7

Question. Explain how PROs are funded, and include the statutory language that permits this funding.

Answer. PROs are funded directly from the Medicare Trust Funds and are not subject to annual Congressional appropriations. We sometimes refer to this as a "standing appropriation." Each fiscal year the Office of Management and Budget (OMB) apportions a specific dollar amount to DHHS to fund the PRO program. All obligations incurred during that year are charged against that apportionment. Because PROs are on 3-year contract cycles, the years we sign (i.e. obligate) most contracts require far more funds than other years.

§1866 (a)(1)(F)(i) of the Social Security Act provides that "the cost of such [PRO] agreement...shall be paid directly by the Secretary to such [peer review] organization [and] shall be transferred directly from the Hospital Insurance Trust Fund, without regard to amounts appropriated in advance in appropriation Acts, in the same manner as transfers are made for payment for services provided directly to beneficiaries... ."

Question. What are the pros and cons of funding Payment Safeguards activities [like Peer Review Organizations]?

Answer. Program integrity spending, because it is under the discretionary cap, must compete with all other discretionary spending that supports basic program operations such as processing beneficiary claims or ensuring prompt benefit payments. The unintended consequence of limited discretionary resources results in the loss of significant program dollars which could otherwise be saved or recovered.

If payment safeguard activities were funded like the Peer Review Organizations (PROs), Medicare payment safeguard functions would not be subject to the discretionary cap. This gives HCFA maximum flexibility and provides a stable flow of funds with a minimum of disruption from year to year in this key activity. The PRO model is a good one since payment safeguard activities are equal in importance and scope to health care quality programs that are scored as mandatory spending.

The merits of payment safeguard activities within HHS are self-evident. The Health Care Financing Administration (HCFA) estimates that expanded program integrity efforts would save at least $8 million in health care spending for every $1 million in additional investments in this type activity. Likewise, the Office of Inspector General (OIG) estimates a minimum of $6 return for every additional $1 invested in investigative activities.

Although reasonable minds can disagree on the size of the savings realized by Medicare's payment safeguard activities, it is clear that even the most conservative estimates of the combined savings are several times larger than the combined cost.

Question. What other alternative methods might be used to fund Payment Safeguard activities?

Answer. In recent years a number of plans have been advanced to fund safeguard spending. The three primary options considered included: (1) a revolving fund under the pay-as-you-go category of spending; (2) a direct tap on the Medicare trust funds; and (3) an "earmark" in HCFA's discretionary account.

In the past, Congress has expressed support to move program integrity activities out from under BEA's discretionary cap. In FY 1992 and FY 1993, Senators Harkin and Grassley championed proposals to move Medicare payment safeguards to a more stable funding source. Congress also included in BEA two instances of removing programs from the discretionary cap - the Internal Revenue

Service (IRS) enforcement initiative and the Veterans Affairs (VA) revolving fund to collect third party payments. Congress specified multi-year spending levels outside the discretionary caps for the IRS exception, recognizing the revenue generating nature of the tax compliance program. Funding increases were later continued in the Omnibus Budget Reconciliation Act of 1993, when the BEA provisions were extended. The BEA also authorized the Department of Veterans Affairs Medical-Care Cost Recovery Fund to receive recoveries and collections as miscellaneous receipts with a portion of these funds available to administer this cost recovery program.

Health Care Reform

Question. The entire discretionary appropriations for the Departments of Labor, Health and Human Services, and Education is $70 billion for fiscal 1995. If we eliminate this funding entirely, we would still be left with a huge Federal deficit. Yet the President's budget indicates we could wipe out the deficit by the year 2002 by simply holding the growth rate in Medicaid and Medicare spending to 3 percent annually, instead of the projected 9 percent annual growth.

Although discretionary spending certainly has to contribute its share toward deficit reduction, doesn't the drive to balance the Federal budget strongly depend on health care reform?

Answer. First, let me clarify that the example cited in the President's budget does not eliminate the deficit by the year 2002 by limiting the rate of growth in Medicare and Medicaid to 3 percent annually. The example assumes that Medicare and Medicaid expenditures continue rising to accommodate increases in the beneficiary population, general inflation, and real per capita output. Using such an assumption, Medicare expenditures would grow by about 5 to 6 percent annually and Medicaid expenditures would grow by about 8 percent annually.

We agree with you that the drive to balance the Federal budget strongly depends on health care reform. Our support for health care reform is based on our strong belief that overall reform will provide the coverage for the most people in a cost efficient and cost effective way. Certainly we would anticipate that comprehensive reform would also allow us to slow the rate of growth for the costs of covering our Medicare and Medicaid populations. Any reduction in spending would of course lower the Federal deficit.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

Global Polio Eradication

Question. Madame Secretary how much will the United States, and HHS in particular, contribute to this effort -- both in terms of technical support and purchasing vaccines -- in Fiscal 1995? What is the proposed contribution in Fiscal 1996?

Answer. In FY 1995, $11,343,000 ($7,227,000 in technical support and $4,116,000 for vaccine purchase) has been appropriated for CDC to support global polio eradication efforts. The FY 1996 estimate includes $11,343,000 ($7,227,000 in technical support and $4,116,000 for vaccine purchase) to support global polio eradication activities.

Question. What other countries and private organizations are contributing to global polio eradication efforts? What are the projected contributions from these countries and other sources?

Answer. CDC and the World Health Organization estimate that an additional $100 million is needed annually from external sources from 1996-2000 (i.e., from donor organizations in addition to the

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resource contributions of the polio-endemic countries themselves), to implement the special strategies in the remaining polio-endemic countries which have proven successful in the Western Hemisphere. The $100 million per year is needed in addition to the approximately $33 million a year already available in 1995 from Rotary International, CDC, Japan, and other donors, and a projected $33 million in funds likely available from donors in 1996 (see summary Table below). Approximately two thirds of the $100 million needed annually is for the purchase of vaccine in developing countries. It is noteworthy that most costs of polio eradication, particularly the costs of personnel and social mobilization, are borne by polio-endemic countries themselves. For example, China is paying more than 90 percent of the costs to eradicate polio.

Projected Contributions* of Funds for Polio Eradication in 1995-1996 (in millions of $)

Donor	1995	1996
Rotary International	11.7	14.0
Japan	6.1	6.0
USA/CDC	9.8	11.3
Australia	0.5	1.0
Other donors	0.9	1.0
TOTAL	29.0	33.3

* Rotary International is considering grants up to the amounts stated; however, these grants have not yet been formally approved. Although the European Community (EC) has expressed interest in funding activities in the European region, no commitments have been made to date.

Rotary International, an international service organization with more than 420,000 members in the United States, has raised more than $240 million to eradicate polio. Rotary paid for many of the costs to eradicate polio in the countries of Central and South America, and continues to contribute to the program in virtually all polio-endemic countries. The collaboration of Rotary International with CDC, the World Health Organization, UNICEF, and other partners in the fight against polio, represents a unique example of public-private sector cooperation.

Question. If there is a gap in resources to achieve WHO's goal of global polio eradication by the year 2000, how will that shortfall be met? Given the potential savings to be achieved by eradicating polio, does the United States intend to increase its commitment to this effort over the next five years?

Answer. The United States will save more than $230 million dollars a year after global polio eradication is achieved and polio immunizations are stopped. The U.S. share of benefits is disproportionately high compared to projected benefits for other countries because of the high cost of vaccines and health care delivery in the United States. CDC and other involved countries/organizations will continue to encourage polio-endemic countries, and industrialized countries which stand to benefit from the eradication of polio, to contribute resources to the ongoing efforts. For example, the Governments of Japan and the United States share a common interest in supporting the goal to eradicate polio by the year 2000, and have been engaged in bilateral discussions as part of the U.S.-Japan Common Agenda to enhance cooperation in this area. CDC will continue to participate in and advocate for enhanced funding for the global polio eradication initiative at periodic WHO-sponsored meetings with donor organizations and governments which occur at WHO headquarters in Geneva, and on at least an annual basis in each of the regions of WHO.

While the President's budget is projected as straight-lined through the year 2000, the Administration continues to evaluate priorities within existing budget constraints.

TECHNOLOGY TRANSFER

Question. Madame Secretary, last year, NIH convened an expert advisory panel to review NIH's policy of requiring that a "reasonable pricing" clause be included in collaborative research agreements, or CRADAs, between NIH and industry.

The NIH's CRADA Advisory Committee concluded that the reasonable pricing clause undermined the willingness of biotechnology and pharmaceutical companies to collaborate on research projects with the NIH, and that the reasonable pricing clause should therefore be eliminated. Around the same time, the President's AIDS Task Force had reached the same conclusion regarding the reasonable pricing clause.

It is my understanding that the decision on CRADAs now rests with an ad hoc committee consisting of, among other people, Assistant Secretary for Health, Phil Lee, and Dr. Harold Varmus of the NIH. What is the status of deliberations of that group; when will the final recommendations be made public; and can you give us some indications about what those recommendations might be?

Answer. Final recommendations are expected to be made in early April. Results from studies that have been undertaken in this matter over the past year indicate that the reasonable pricing clause may have driven industry away from potentially beneficial scientific collaborations with scientists in the Public Health Service. Based on this data, I believe Dr. Varmus is of the opinion that eliminating the clause will promote research that will enhance the health of the American people, and therefore will recommend removal of the clause.

QUESTIONS SUBMITTED BY SENATOR MARK HATFIELD

Elderly Nutrition

Question. What is your solution to quickly solving the hunger problem among this nation's elderly?

Answer. There are no quick and easy solutions to the problem of hunger and malnutrition among this nation's aging population. Since hunger has many causes, it requires a multidimensional solution. For example, we can link food insecurity, hunger, and poor nutritional status to low income. Low income older persons often have limited access to food and fewer food choices, especially when needs perceived as more pressing --utility bills, rent and housing costs, medication and doctors' bills-- take precedence. Therefore, the adequacy and level of income to meet basic needs and health care coverage to meet medical needs deserve attention. Programs such as Medicare, Medicaid, SSI and Food Stamps, which assist older Americans in meeting these needs, impact the hunger problem.

We believe that hunger and malnutrition among America's elderly are preventable. Improvements in the Older Americans Act programs are part of the solution. Better targeting of the senior nutrition programs, as well as improved services for those individuals with the greatest social, economic, and nutritional need as well as improved service--such as providing meals more compatible with varying ethnic and cultural eating habits--to low income and minority populations will increase program effectiveness and reduce hunger and malnutrition.

The Assistant Secretary for Aging is implementing a Nutrition/Malnutrition Initiative designed to focus attention on the impact of nutrition on the health and functioning of older individuals. As part of this Initiative, AoA has held a series of one-day forums in nine of the ten Regional Offices. These forums are designed to bring together aging and nutrition services networks, hunger advocacy groups, social service policy makers, program administrators, legislators, government agencies, and professionals structuring home and community-based care systems. Recommendations resulting from the forums will be addressed at the White House Conference on Aging to be held in May 1995.

In addition, to enhance the capacity of State and local elderly nutrition programs, AoA has published a report that highlights the innovative approaches of all 50 State agencies on Aging to improve nutrition programs. AoA has, in cooperation with a university, established a National Policy and Resource Center on Nutrition and Aging.

Home-Delivered Meals

Question. Wouldn't the $18.6 million be better spent in increasing the appropriation for home-delivered meals program?

Answer. In the short term, an increase in the funding for home-delivered meals would benefit those older individuals who would either receive meals for the first time or receive enhanced services. However, nutrition services do not function in isolation and should be a part of a comprehensive, coordinated long-term approach to providing social, supportive, and medical services. The $18.6 million increase to the home and community-based program is intended to improve States' capacities to manage comprehensive, cost-effective systems of long-term, home and community-based care. This funding would assist States in achieving the capacity you noted in Oregon and would permit even the States with immense capacity --like Oregon-- to make further enhancements. We believe that this effort will prove more beneficial in the long run to a greater number of older Americans with nutritional and other needs.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER BOND

ASSIST -- Funding

Question. Some concerns about the National Cancer Institute's program called ASSIST which stands for the American Stop Smoking Intervention Study, have been brought to my attention.

You have responded to questions in the past about use of ASSIST funds for lobby state and local government officials in the past. It has been alleged that funding is used to train volunteers to lobby public officials against public smoking, cigarette vending machines and other issues.

It has been brought to my attention that ASSIST volunteers in nearly every state with an ASSIST grant are trained in the art of lobbying as "volunteer advocates" or "policy advocates". They are supplied with legislative objectives, tips for speaking with legislators, background materials, t-shirts and in my state, apparently with coffee mugs.

The "volunteer advocate" is not receiving federal funds directly and that is clearly not a violation. But, if this is occuring, the framework for influencing state or city or county legislators is being built with federal funds. Congress made its intent quite clear that federal funds should not be used for influencing, directly or indirectly, lawmakers at the state, city or county level.

How is your department ensuring that federal ASSIST funds will not be used to support activities that directly or indirectly seek to influence lawmakers?

Answer. The National Cancer Institute is taking extreme care to be sure that ASSIST funds are used effectively, efficiently, and in complete compliance with all relevant laws and regulations. Monitoring of this compliance occurs at both the state and federal levels.

All activities conducted in ASSIST states must have the prior approval of the state health department. Each state develops an annual plan that describes all major activities for the coming year, and it is reviewed by the health department to be sure it is efficient, appropriate for the state, and in compliance with state laws. The plan is then submitted to the NCI for review for its scientific content and its compliance with all applicable federal laws. The ASSIST programs use a contract mechanism (not a grant) for funding and detailed invoices for all subsequent expenditures are required. These invoices are also reviewed by NCI program staff and procurement staff for compliance with existing laws and regulations. Quarterly reports of these activities are required of each state. Program staff at NCI make site visits to each state at least once per year to monitor performance on site. Through these many monitoring activities, compliance with all applicable laws and regulations is ensured.

Question. What should Congress do to resolve this problem?

Answer. The NCI has conveyed in explicit terms the prohibition about lobbying with ASSIST research funds. Because state and local laws vary with respect to tobacco control issues, certain decisions are made at the state and local levels as to the implementation of ASSIST programs. As we have previously stated, the NCI has taken great care to implement monitoring systems that will ensure all applicable laws are enforced concerning ASSIST funding priorities.

ASSIST -- Anti-Smoking

Question. Funds have been made available from the Centers for Disease Control and Prevention for anti-smoking programs in the states that did not receive ASSIST grants. What kinds of anti-smoking coalition activities are being funded through the CDC? How are you ensuring that those funds are not used to support lobbying efforts?

Answer. There are State-level tobacco control coalitions in 32 of the 33 States funded by CDC's IMPACT cooperative agreements. Funds are to provide staff support for these coalitions. Staff activities include providing training, data, materials, and information on tobacco control topics. In addition, some State health agencies have provided funds to the local level for similar activities. Examples of coalition activities include developing and implementing a state-wide tobacco control plan, working with the media to inform the public of the need to advocate for tobacco control programs, and collaborating on a variety of youth initiatives, including enforcement of minors' access to tobacco laws.

Each grantee under CDC's IMPACT program was required to certify, by signature on a form included with their original grant application (PHS-5161-1), that they were aware of the restriction on use of Federal funds for lobbying federal lawmakers. A training workshop was provided to CDC grantees to ensure they understand the restrictions on lobbying, and each State received a follow-up packet of materials that outlined activities that were or were not allowable at the Federal, State, and local level under Federal grants and contracts regulations (Title 31 USC Section 1352).

ASSIST -- Lobbying

Question. Are these kinds of grassroots lobbying efforts to achieve national anti-smoking goals the most appropriate use for scarce dollars at the National Cancer Institute?

Answer. NCI has informed all parties involved that no lobbying efforts are permitted under NCI research dollars. ASSIST is a demonstration project implemented through state health departments in collaboration with voluntary health organizations such as the American Cancer Society. NCI's mission is to reduce illness and deaths from cancer and it is estimated that a third of all cancer deaths are related to tobacco use. Tobacco use is responsible for one out of every five deaths in this Nation.

Lung cancer is the leading cause of cancer deaths for both men and women, and 90% of these deaths are caused by smoking. Cigarette smoking is directly responsible for 180,000 cancer deaths each year. Sadly, more than 3,000 teenagers and children start smoking every day, creating a new generation of people addicted to nicotine. Over half of these young people will ultimately die because of their smoking. ASSIST is also focusing on school children to reinforce the message of not smoking.

Today the human and financial costs of smoking are enormous. Only about 13 percent of patients diagnosed with lung cancer survive for five years. The cost of treating just one case of lung cancer is between $29,000 and $42,000. ASSIST is an investment in reducing the toll of tobacco-related illness.

QUESTIONS SUBMITTED BY SENATOR DALE BUMPERS

Head Start

Question. The Department is proposing a $400 million increase in Head Start funding in 1996 -- for a total of nearly $4 billion. What percentage of the total eligible Head Start population would that amount allow us to serve? What proportion are we serving now? How much do we estimate "full funding" -- serving all eligible children -- would cost? How does this compare to the estimates of full funding the Department made in 1993?

Answer. In FY 1995, the Department estimates that 752,000 children will be served by the Head Start program. The President's FY 1996 proposed budget would increase that number to 784,000. We estimate that the proposed budget would enable us to serve 43 percent of the eligible children.

In calculating this percentage, it is first necessary to define the eligible population. Head Start's authorizing legislation speaks of serving children from birth through the age of compulsory school attendance, an age range of several years. Historically, however, Head Start has primarily been a program serving low-income pre-school age children, typically 3 and 4 year olds. The Administration's goal is to move towards establishing a Head Start program which would serve all of the eligible 3 and 4 year old children whose parents are interested in enrolling them in Head Start, while also providing that by 1998 5 percent of Head Start's total appropriation be used to serve infant and toddler age children and their families.

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Based on Census data, we estimate that, currently, there are 1,950,000 low-income children in the country who are either 3 or 4 years old. We assume that 80 percent of these families would be interested in enrolling their children in Head Start; and that the remaining 20 percent would have alternative child care arrangements. These assumptions would require the funding of 1,560,000 Head Start slots in order to serve all interested and eligible children.

Of the 752,000 children estimated to be enrolled in Head Start in FY 1995, 90 percent, or 677,000, are either 3 or 4 years old and 95 percent of these children, or 643,000, are low-income (Head Start programs may enroll up to 10 percent of their children from families whose income exceeds the poverty line.) Thus, in FY 1995, 643,000 of the estimated 1,560,000 eligible children, or 41 percent, are being served. In FY 1996 this proportion will increase to approximately 43 percent.

Our estimate for fully funding the Head Start program by the Year 1999 assumes that all children in the program would be 3 or 4 year olds from low-income families, except that we would continue to allocate 5 percent of Head Start's appropriation to serve children younger than 3 years of age. This estimate further assumes that 25 percent of Head Start children would be served in full-day/full-year programs designed to meet the child care needs of working Head Start parents, and that the incremental costs for the full-day portion of these children's Head Start experience would be shared equally between Head Start and other child care funding sources.

Based on these assumptions, our current estimate for the full funding of Head Start by 1999 is $11.6 billion. The estimate developed in 1993, using the same set of assumptions (except that the number of eligible children at that time was 1.4 million), was $10.1 billion. Estimates done prior to 1993 are not comparable to current figures because they assumed that children would be served in Head Start for only one year and that no Head Start funds would be used for full-day Head Start.

VFC Program

Question. You've testified that the Department has enrolled "thousands" of physicians in the VFC program. Can you give us a more precise count of the number of individual physicians enrolled? How many of the enrollees are actually new participants? In other words, if you subtract Medicaid physicians, physicians in universal purchase states, and public clinics -- all of whom were distributing free vaccine before this program began -- how many new providers do we really have?

Answer. Based on information submitted to CDC by 49 States (excluding Alaska), 7,570 public sites and 21,012 private sites, total 28,582 sites, were enrolled in the VFC program as of January 20, 1995. Industry has estimated on average there are 2.2 physicians enrolled per site. Thus, we estimate there are approximately 16,654 physicians enrolled in the public sector and 46,226 physicians enrolled in the private sector for a total of 62,880 physicians enrolled in the VFC program since October 1, 1994. Physician enrollment from the private sector continues to increase each month.

Information on the number of Medicaid physicians and the number of those physicians who immunize children is not available on a national basis. Removing all public clinic physicians (16,654) and all physicians from universal purchase States (7,014) from the total, we estimate there are 39,212 new participants in the VFC program. If we assume that 10% to 50% of these providers are also Medicaid providers, then the number of new participants ranges between 19,606 and 35,290, representing a significant increase in access to medical care. (At this time, CDC and HCFA have no better estimate of how many providers are also Medicaid providers.) In addition to new participants, it is also important to remember that Medicaid physicians now have the ability to immunize non-Medicaid children who are VFC-eligible because they are receiving vaccine for the uninsured and Native Americans.

CDC has received anecdotal reports from some States that physician enrollment in the Medicaid program is increasing due to both the VFC program and state Medicaid increases in reimbursement for immunization administration.

Immunization

Question. The CDC has recently reported on several studies that show the main cause of low immunization rates among high-risk children is the failure of providers to immunize the children in their care -- most of whom see their physicians more than enough times to receive the recommended number of doses. These data confirm earlier studies that suggest eliminating "missed opportunities" to vaccinate would solve much of the immunization problem. Don't these findings tell us that our efforts and resources would be better focused on improving provider and patient behavior, rather than purchase of more vaccine? What is the Department doing to ensure that the findings from these studies are translated to actions by States and communities?

Answer. CDC believes that the problems of underimmunization can only be resolved by the multi-faceted approach embodied in the Childhood Immunization Initiative (CII). We believe that the increasing cost of the childhood vaccine series is one of the barriers to improving childhood immunization coverage. Private provider referral to public clinics of children whose families cannot afford the cost of today's vaccines can adversely impact timely immunization while concomitantly causing unnecessary resource demands on public clinics. The Vaccines for Children (VFC) Program can address this problem by allowing these children to be vaccinated by their primary care providers. Implementation of the other components of the CII will address a variety of other problems associated with undervaccination. These other components include: (1) Improving the quality and availability of vaccination delivery services; (2) Increasing community participation and education; (3) Enhancing surveillance for vaccine-preventable diseases; (4) Improving our ability to measure and monitor vaccine coverage; and (5) Improving vaccines and vaccine scheduling.

CDC is working closely with each State to help implement a statewide assessment and feedback protocol, especially in public clinics. The protocol includes a CDC-developed procedural manual and software package (Clinic Assessment Software Application or CASA). Program or provider staff select a representative sample of immunization records. The birth dates and immunization dates of the children in the sample are entered into CASA which generates a report that reveals the estimated immunization coverage in that provider setting and includes a diagnostic overview of provider practices. This information becomes the basis for discussion among provider staff about how deficiencies in immunization practices, such as missed opportunities, can be remedied. Often, providers are motivated to attempt these improvements when they are made aware of how their performance compares with that of their peers. Motivation is enhanced by efforts to recognize and reward those who improve immunization practices and coverage rates. In Georgia, implementation of this protocol resulted in an increase in series-complete (DTP4; OPV3; MMR1) immunization levels at 24 months of age from 34 percent in 1987 to 80 percent in 1993.

CDC is encouraging all immunization grantees to adopt this protocol, especially for use in the public sector. Additional work is under way to develop and implement a more simplified system for use in the private sector. Ultimately, these coverage monitoring and diagnostic capabilities will be incorporated into State

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immunization information systems which most States are currently developing. In addition, these registries will allow providers to track their patients and remind or recall families of patients who are due or past-due for immunizations.

Question. You mention that the overall coverage rate for 2-year-olds is 67 percent. What is the coverage rate among 2-year-olds for measles vaccine? for DTP vaccine? for polio vaccine? Given the very high coverage rates for each antigen -- the highest we've had for the past 20 years -- shouldn't we be focusing our efforts on those pockets of poverty where coverage rates are far below the national rates? What has the Department done to identify those areas most in need? To target efforts and resources on those populations? How much is CDC spending on these efforts to reach high-risk children?

Answer. The table below gives immunization levels from national surveys conducted in 1992 and 1993.

IMMUNIZATION LEVELS OF CHILDREN 19-35 MONTHS OF AGE FOR SELECTED VACCINES, 1992-1993

VACCINE	1992	1993
Measles-containing	82.5%	84.1%
DTP/DT[1]		
3+ Doses	83.0%	88.2%
4+ Doses	59.0%	72.1%
Polio		
3+ Doses	72.4%	78.9%
Haemophilus influenzae type b (Hib) 3+ Doses	28.2%	55.0%
3 DTP/3 Polio/1 MMR[2]	68.7%	74.5%
4 DTP/3 Polio/1 MMR[3]	55.3%	67.1%

[1] Diphtheria and tetanus toxoids and pertussis vaccine/Diphtheria and tetanus toxoids.
[2] Three doses of DTP, three doses of polio vaccine, and one dose of measles-mumps-rubella vaccine.
[3] Four doses of DTP, three doses of polio vaccine, and one dose of measles-mumps-rubella vaccine.

Although one of the goals of CDC is to ensure that all children in the United States receive at the appropriate age all the vaccines routinely recommended in childhood, CDC does focus on children living in poverty, especially children from racial/ ethnic minorities living in inner cities. Through the National Health Interview Survey (NHIS) we are able to monitor vaccination levels annually for various subgroups of the population including poverty status and area of residence. With this information, we are able to identify those areas most in need of intensified vaccination efforts, such as targeting children below poverty in central-city areas.

Beginning in 1992, CDC targeted infrastructure funding to 24 major urban areas, selected on the basis of population size and the percent of minority population within the core city. Five additional urban areas were already direct immunization grantees. Infrastructure funding allocated to these 29 urban areas to date in 1995 exceeds $21 million. These funds were made available to all 63 immunization grantees and the 24 urban areas to enhance the availability and accessibility of immunization services, carry out assessments of immunization coverage and conduct immunization education, information and outreach activities.

In addition, prior to October 1, 1995, CDC intends to award approximately $17 million more in infrastructure funding to implement activities and interventions that are known to increase immunization coverage. In addition to the provider assessment and feedback protocol, linking WIC Program and immunization services and implementing reminder/recall systems are activities which available data suggest will improve coverage when implemented.

We have recently begun collecting information through a random-digit dialing survey in 78 areas throughout the United States. These 78 non-overlapping areas cover the entire U.S. population including 28 urban areas. As this data becomes available, we will be able to identify those urban areas most in need.

Question. I understand that the CDC has recently decided not to contract for distribution of vaccine under the VFC program? When and why was that decision made? How much money has already been spent by CDC to solicit distribution contracts, audit the vaccine companies' delivery orders, negotiate with vaccine companies, and upgrade its computer system for coordination of vaccine shipping?

Answer. The CDC has experienced problems in its attempts to negotiate contracts with several vaccine companies to deliver vaccines to private providers. The four principal vaccine companies were contacted by CDC in early September 1994 to discuss the possibility of adding provider delivery to existing vaccine purchase contracts. CDC issued "Requests for Proposals" on September 15-16, 1995. CDC made it clear to the vaccine companies that it was anxious to receive proposals and quickly negotiate contract modifications for delivery. Though potential problems were identified, including the need for an electronic ordering system to quickly process vaccine orders, it was anticipated that vaccine deliveries would begin no later than December 1994.

Subsequently, the following problems in the negotiation of delivery contracts have occurred:

1. The last proposal from a vaccine company was not received by CDC until December 12.
2. At least one company totally discontinued joint efforts with CDC to establish electronic ordering and billing systems. CDC estimates it will take three months after the contract is awarded for the company to establish this system.
3. At least one company has proposed start-up costs which appear unreasonable.

One vaccine company has agreed to a delivery contract. The States, however, have informed CDC that all contracts must be signed with all vaccine companies before the States can successfully manage the program of providing all vaccines to each provider.

All States, except Alaska which is not participating in VFC, have implemented the VFC program in the public sector. As of January 20th, 36 states informed CDC that systems had been implemented for VFC enrolled private providers to receive vaccine, and 9 more states would provide vaccine to private providers during 1995. Four states were waiting for CDC to establish a national contract for delivery of vaccine to private providers by the end of this year. State approaches to implementing their own distribution systems continue to evolve. For example, we have learned that one state, previously not delivering vaccine to VFC enrolled private providers, has now signed a delivery contract with a private

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distributor. CDC will continue to survey States to document current delivery activities.

CDC has contracted with the Logistics Management Institute (LMI) to make recommendations on the most cost effective and efficient means for national delivery contracts to be established for 1996 and beyond. We expect to receive those recommendations from LMI within the next couple of months, and it is expected that it will require about 9-10 months to establish such a system.

The only resources that CDC has used in attempting to contract with the vaccine manufacturers for distribution have been personnel. CDC estimates that $27,000 in personnel compensation has been expended from CDC discretionary funds. CDC did not invest any additional funds to upgrade its computer system for coordination of vaccine shipping. CDC does not audit vaccine companies' delivery orders per se, rather delivery orders are routinely monitored through receiving reports submitted to CDC by the States. One CDC staff member spends 10% of his time monitoring vaccine orders submitted by the States to ensure the States' actual needs are being met of vaccines among States and to track progress toward the contractual limitations.

Question. Officials of one state have said publicly at an immunization conference that three times as much vaccine has been wasted in the first few months of the VFC program as was wasted in the previous three years of the State's immunization effort. We have other anecdotal reports that suggest this experience is not unique. Wastage was also an issue raised by the GAO in its report last summer. What safeguards have you instituted to prevent the waste of vaccine under the VFC program and therefore the wastage of federal funds?

Answer. No State has reported vaccine wastage to CDC that is attributable to the VFC program nor is CDC aware of vaccine losses that are 3 times the losses of previous years. VFC, 317 grant and State purchased vaccines are stored together with each State establishing safeguards to prevent or minimize vaccine loss.

In February 1995, CDC convened a meeting with immunization program managers from 9 representative States. These experts reviewed the State vaccine accountability plans submitted from all States and made recommendations regarding those vaccine accountability activities of different States that appear the most effective or innovative. These summaries will soon be provided to all States.

CDC has contracted with Batelle to pilot specific vaccine accountability systems in three States. These studies will vary but approaches include a vaccine dose replacement system and actual vaccine usage reporting for a 30 day period, prorated for 12 months to establish individual provider need. These pilot studies should begin in April 1995.

VFC Program

Question. I understand the Department paid nearly a half-million dollars for a study conducted by the Mercer group to evaluate the impact of the VFC program on private sector investment in vaccine research and development. Release of the report has been delayed several times, and it appears now that the report may never be published. It is my understanding that Mercer group has provided the Department with its finished product. Please explain why the report has not been released. From what DHHS account was the Mercer contract paid? Please submit to the committee a copy of the contract for the Mercer study as well as written reports prepared by the Mercer group?

Answer. The purpose of the contract with Mercer Management Consulting, Inc. is to develop an understanding of the economics of the United States vaccine industry that will enable the Federal government to establish vaccine procurement mechanisms and fair payment prices for vaccines, in order to adequately sustain private sector research and development on new and improved vaccines. The National Vaccine Program Office (NVPO) entered into the contract with Mercer in response to a request from the National Vaccine Advisory Committee (NVAC). Mercer's report has not been completed; although it is now in the final stages of preparation. The report will be presented to the NVAC at its May 11/12, 1995 meeting. The NVAC meeting will be open to the public and copies of the report will be available.

As requested, copies of the original contract with Mercer and the modification are attached. Both of these contracts are funded by appropriations to the Centers for Disease Control and Prevention designated for "Priority Vaccine Projects within the Public Health Service".

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AMENDMENT OF SOL. [illegible] MODIFICATION OF CONTRA[illegible]

1. CONTRACT ID CODE	
PAGE OF PAGES	1 | 1
2. AMENDMENT/MODIFICATION NO.	Modification No. 1
3. EFFECTIVE DATE	12/27/94
4. REQUISITION/PURCHASE REQ. NO.	NA
5. PROJECT NO. (If applicable)	

6. ISSUED BY CODE

DHHS/Public Health Service
Division of Acquisition Management, ASC/OM
General Acquisitions Branch
Parklawn Building. Room 5-101
5600 Fishers Lane, Rockville, MD 20857

7. ADMINISTERED BY (If other than Item 6) CODE

OVL I [illegible]900109
OMB No [illegible]900115

DUPLICATE ORIGINAL

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

Mercer Management Consulting, Inc.
2300 N Street, N.W.
Washington, D.C. 20037

CODE FACILITY CODE

(✓)	
	9A. AMENDMENT OF SOLICITATION NO.
	9B. DATED (SEE ITEM 11)
X	10A. MODIFICATION OF CONTRACT/ORDER NO. 282-94-0034
	10B. DATED (SEE ITEM 13) 09/24/94

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning ______ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

NA

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS. IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(✓)	
	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).
X	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF: FAR 243-1 Changes - Fixed-Price AUG 1987 Alternate I APR 1984
	D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The above referenced contract is modified as follows:

Section F - Deliveries or Performance, F.1. Period of Performance is deleted in its entirety and replaced with the following:

The period of performance for this contract shall be from September 26, 1994, through January 17, 1996.

The total contract amount is unchanged by reason of this modification.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print) LANCE B HACKETT VICE PRESIDENT		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Janet H. Miller	
15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)	15C. DATE SIGNED 1/5/95	16B. UNITED STATES OF AMERICA BY Janet H Miller (Signature of Contracting Officer)	16C. DATE SIGNED JAN 09 1995

NSN 7540-01-152-8070 30-105 STANDARD FORM 30 (REV. 10-83)

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AWARD/CONTRACT

1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350) ▶ RATING

PAGE 1 OF 30 PAGES

2. CONTRACT (Proc. Inst. Ident.) NO. 282-94-0034

3. EFFECTIVE DATE 9/26/94

4. REQUISITION/PURCHASE REQUEST/PROJECT NO. 115630

5. ISSUED BY CODE

DHHS/Public Health Service
Division of Acquisition Management, ASC/OM
General Acquisitions Branch
Parklawn Building, Room 5-101
5600 Fishers Lane
Rockville, MD 208

6. ADMINISTERED BY (If other than Item 5) CODE

OMB No. 0990-0109
OMB No. 0990-0115

DUPLICATE ORIGINAL

7. NAME AND ADDRESS OF CONTRACTOR (No., street, city, county, State and ZIP Code)

Mercer Management Consulting, Inc.
2300 N Street NW
Washington, D.C. 20037-1122

TIN: 36-2668272

CODE FACILITY CODE

8. DELIVERY NA

☐ FOB ORIGIN ☐ OTHER (See below)

9. DISCOUNT FOR PROMPT PAYMENT

NA

10. SUBMIT INVOICES (4 copies unless otherwise specified) TO THE ADDRESS SHOWN IN ▶ ITEM See Section G.2.(d)

11. SHIP TO/MARK FOR CODE

NA

12. PAYMENT WILL BE MADE BY CODE

See Section G.2.(e)

13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION

☐ 10 U.S.C. 2304(c)( ) ☒ 41 U.S.C. 253(c)(2)

14. ACCOUNTING AND APPROPRIATION DATA

4921-2124 4AA420 7540943 25.9Y

15A. ITEM NO.	15B. SUPPLIES/SERVICES	15C. QUANTITY	15D. UNIT	15E. UNIT PRICE	15F. AMOUNT
	TITLE: Vaccine Manufacturing Costs, Vaccine Pricing, and Investments in Research and Development Type of Contract: Firm Fixed-Price Period of Performance: September 26, 1994, through December 27, 1994				
				15G. TOTAL AMOUNT OF CONTRACT ▶	$ 345,000

16. TABLE OF CONTENTS

(✓)	SEC.	DESCRIPTION	PAGE(S)	(✓)	SEC.	DESCRIPTION	PAGE(S)
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X	B	SUPPLIES OR SERVICES AND PRICES/COSTS	2			PART III – LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.	
X	C	DESCRIPTION/SPECS./WORK STATEMENT	3-9		J	LIST OF ATTACHMENTS	
	D	PACKAGING AND MARKING				PART IV – REPRESENTATIONS AND INSTRUCTIONS	
X	E	INSPECTION AND ACCEPTANCE	10		K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	
X	F	DELIVERIES OR PERFORMANCE	11-12				
X	G	CONTRACT ADMINISTRATION DATA	13-15		L	INSTRS., CONDS., AND NOTICES TO OFFERORS	
X	H	SPECIAL CONTRACT REQUIREMENTS	16		M	EVALUATION FACTORS FOR AWARD	

CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE

17. ☒ CONTRACTOR'S NEGOTIATED AGREEMENT (Contractor is required to sign this document and return 3 copies to issuing office.) Contractor agrees to furnish and deliver all items or perform all the services set forth or otherwise identified above and on any continuation sheets for the consideration stated herein. The rights and obligations of the parties to this contract shall be subject to and governed by the following documents: (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein. (Attachments are listed herein.)

18. ☐ AWARD (Contractor is not required to sign this document.) Your offer on Solicitation Number ______ including the additions or changes made by you which additions or changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets. This award consummates the contract which consists of the following documents: (a) the Government's solicitation and your offer, and (b) this award/contract. No further contractual document is necessary.

19A. NAME AND TITLE OF SIGNER (Type or print)

Lance B. Hackett

19B. NAME OF CONTRACTOR

BY Lance B. Hackett
(Signature of person authorized to sign)

19C. DATE SIGNED 9/23/94

20A. NAME OF CONTRACTING OFFICER

Janet H. Miller

20B. UNITED STATES OF AMERICA

BY Janet H. Miller
(Signature of Contracting Officer)

20C. DATE SIGNED SEP 23 1994

STANDARD FORM 26

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SECTION B - SUPPLIES OR SERVICES AND PRICES/COSTS

In consideration for the satisfactory performance of the work herein, the Contractor shall be paid on a Firm Fixed-Price basis, **$345,000.**

Payments shall be made upon receipt and acceptance of deliverables in the amounts specified below:

PAYMENT SCHEDULE

Upon the completion of Task 1	$ 35,000
Upon the completion of Task 2	$ 35,000
Upon the compeltion of Task 3	$100,000
Upon the completion of Task 4	$175,000
TOTAL	**$345,000**

SECTION C - DESCRIPTIONS/SPECIFICATIONS/STATEMENT OF WORK

C.1. Project Title

Vaccine Manufacturing Costs, Vaccine Pricing, and Investments in Research and Development

C.2. Purpose of Contract

The purpose of this contract is to develop an understanding of the economics of the United States vaccine industry that will enable the United States Government to establish vaccine procurement mechanisms and fair payment prices for vaccines, in order to adequately sustain private sector research and development on new and improved vaccines.

The specific activities envisaged are outlined in the Statement of Work.

The primary user of the findings and conclusions of this study would be the Secretary of Health and Human Services (HHS), in setting the Federal contract price for purchase of existing vaccines. Secondary users would be the Centers for Disease Control and Prevention, in negotiating prices for new vaccines to be added to the Vaccines for Children Program, and the National Vaccine Program Office in establishing a long-term policy for public/private collaboration in meeting national vaccine development and supply needs.

C.3. Background

The 1993 Omnibus Budget Reconciliation Act (OBRA) contains provisions due to take effect in October 1994 that could significantly increase the proportion of existing vaccines purchased on Federal contract while capping the price paid to suppliers at a level tied to that paid for vaccines in May 1993. The legislation provides for the Secretary, HHS, to request that Congress adjust the statutory Federal contract price in order not to adversely effect research and development on new vaccines by the private sector.

Additionally, the legislation calls for new vaccines, when recommended by the Advisory Committee on Immunization Practices, to be purchased on Federal contract. When licensed, the vaccine against Varicella (chickenpox) would be a candidate for such purchase. At present, the Federal Government has no information base on which to determine what would be an appropriate price to pay for such new vaccines.

Prices paid for Federal vaccine purchases are typically 50% and in some cases 80% below the catalog (private sector) price. Vaccine companies have expressed serious concerns that the increased Federal purchase (possibly rising from about 50% to over 80% of the annual sales of recommended childhood vaccines) at the capped price will dramatically decrease their total revenues. They have warned that Research and Development (R&D) on new or improved vaccines will be cut back if no way of replacing these lost revenues is found, or that it will not be commercially viable to continue to supply some vaccines on Federal contract.

At its June 9-10, 1994 meeting, the National Vaccine Advisory Committee requested the Secretary, HHS, to examine the situation as soon as possible in order to propose to Congress a Federal contract price that did not adversely affect private-sector R&D.

When new vaccines are licensed and recommended for inclusion in the Vaccines for Children Program (VFC), a Federal Contract price will need to be negotiated. The VFC Program offers to suppliers of new vaccines or new combinations the prospect of sales volumes that are guaranteed and likely to rise more quickly than would otherwise be the case.

In order to be in a position to establish a Federal contract price for existing vaccines that is reasonable and sustains private sector R&D and to negotiate reasonable prices for new vaccines, it is necessary to improve the public sector understanding of the economics of United States vaccine industry. In particular, it is desirable to understand to the maximum extent possible, vaccine pricing, for different markets, and the relationships among manufacturing costs, product volumes, pricing, markets, revenues, investments in R&D, and return to shareholders/owners.

The OBRA-1993 provisions take effect in October 1994 but it should be possible somewhat before that time to estimate the likely shift in the proportion of vaccine sales that will result from the new legislative provisions. Vaccine companies however already state that it is their intention to reduce R&D if the Federal purchase is at the 'capped' price rather that a 'blended' price that takes into account proportion of overall sales to the public and private markets, and overall revenues for R&D.

Small biotech companies engaged in vaccine development report that the possibility of large public purchases at enforced, unrealistically low prices is having an adverse impact on their capacity to raise funds in the venture capital market. This is indirectly reducing vaccine R&D.

Varicella vaccine, which is likely to be recommended under the VFC Program, has been reviewed by Food and Drug Administration's Vaccines and Related Biological Products Advisory Committee and a decision regarding licensure is anticipated in the near future.

Given this situation it is necessary to establish as rapidly as possible the information base for setting sound policy regarding Federal vaccine purchases. Fortunately a study has recently been conducted for United Nations International

Children's Emergency Fund (UNICEF) & the World Health Organization (WHO) on the worldwide vaccine industry and the manufacturing costs, pricing, volume/market considerations pertinent to the companies that supply childhood vaccines to UNICEF. However, that study focused overwhelmingly on European companies.

The approaches, methods and models developed for the UNICEF/WHO study are applicable to the present information needs of the U.S. Government. However, since the UNICEF study only included one U.S. manufacturer (for one vaccine, measles) it will be necessary to extend the approaches, methods and models to all U.S. suppliers of vaccines purchased by the Federal Government and to all vaccines presently (or likely to be) recommended under the VFC program.

The proposed analysis should be conducted immediately in order for the Secretary, HHS, to fulfill the responsibilities placed on her by OBRA-1993 in a timely fashion.

A. Background papers: Conference on the Economic Underpinning of Vaccine supply. November 12, 1993, Washington, D.C., National Vaccine Program Office.

C.4. Statement of Work

The Contractor shall assemble information and conduct analyses that will provide a comprehensive picture of the economics of the U.S. vaccine industry. This analysis should enable the Federal Government to put in place policies for public/private collaboration and vaccine procurement mechanisms that will serve the long term interests of sustaining and expanding prevention of infectious diseases through immunization. Specifically the contractor shall undertake the following activities:

1. For the vaccines and vaccine suppliers of interest[1,2], estimate the production volume and contributions to present manufacturers costs. If any company is known to be increasing production capacity, the contractor should also attempt to estimate future manufacturing costs.

2. For each vaccine and vaccine supplier, develop a historical perspective of the suppliers' revenues, growth initiatives, production investments and development programs, and any other factors which may be relevant to the economics of their vaccine business. Estimate the volume sold and prices realized to different market segments over the time for which data is available and relevant. Suitable data for this analysis will be sought for at least the last 5 to 10 years.

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[1] Vaccines of Interest: measles, mumps, rubella, polio, diphtheria and tetanus toxoids, pertussis, hepatitis B, *Haemophilus influenzae* type b (hib), and combinations thereof.

[2] Vaccine suppliers: U.S. based manufacturers Merck; Lederle-Praxis; Wyeth-Ayrst; Connaught; Michigan DPH; Massachusetts DPH. U.S. supplier with overseas Manufacturing: SmithKline Beecham; Pasteur-Merieus-Connaught.

3. Compare estimated manufacturing costs and pricing of U.S.-based versus non-U.S.-based manufacturing for vaccines of interest.

4. For the vaccines and suppliers of interest estimate the contributions to vaccine pricing for the major markets, including, but not necessarily limited to: Federal contract and private market.

5. Estimate investment by vaccine suppliers in research and development directed toward new or improved vaccines for the last 10 years. Identify the influence of pricing, Federal contract and other bulk sales, overall revenues, and other factors on investment in R&D, and dividends to shareholders.

6. Assess the relationship of production volume to present (and where applicable, future) manufacturing costs and the implications of production volume for pricing in domestic markets, export markets, and supply to humanitarian vaccine procurement mechanisms for the least developed countries such as that managed by UNICEF.

7. Apply the methods for estimating manufacturing costs and pricing, and for describing relationships among production volume, manufacturing costs and pricing for one of the selected future vaccine[3], to the extent possible. Develop a methodology which can be applied to others later. This exercise should be conducted for at least one vaccine, to be chosen by mutual agreement with the Project Officer, and an additional one if time and resources permit.

8. Identify options for managing Federal vaccine purchases in a manner that will optimally sustain and expand prevention of infectious diseases through appropriately recognizing the necessity for private sector investment in research and development.

These activities would be organized into the following tasks:

Task 1. Develop a Study Plan

1.1 The Contractor shall meet with the Project Officer within 10 days of the effective date of the contract to review the scope of the study.

1.2 The Contractor shall develop a preliminary listing of information sources and contracts relating to the study scope.

1.3 The Contractor shall develop a study plan, which will include information needs, information collection procedures and analytic methods to be used in addressing the study topics.

1.4 The Contractor shall meet with the Project Officer to present the study plan.

---

[3] Future Vaccines: Varicella; acellular Pertussis; hepatitis A, conjugated *Streptococcus pneumoniae*.

Task 2. Gather Information and Conduct Preliminary Analyses

2.1 The Contractor shall gather any necessary information, with assistance from the National Vaccine Program Office.

2.2 The Contractor shall conduct preliminary analyses.

2.3 The Contractor shall meet with the Project Officer to present and discuss the results of preliminary analyses and subsequently revise the study plan if jointly deemed necessary.

Task 3. Conduct dialogues with Vaccine Companies on Preliminary Findings and Conclusions

3.1 The Contractor shall arrange further interviews and dialogues with the industry, administration and legislative representatives to identify issues needing further information, clarification and/or analysis.

3.2 The Contractor shall conduct further analyses as necessary to complete the information base and analysis relating to the study topics.

3.3 The Contractor shall brief the Project Officer on the findings and conclusions of the analyses.

Task 4. Identification of Options for Federal Vaccine Procurement/Purchase Price Setting

4.1 The Contractor shall meet with the Project Officer to discuss preliminary options identified for procurement/pricing mechanisms for Federal vaccine purchase that sustains private sector R&D.

4.2 The Contractor shall prepare a final report on findings, conclusions and options regarding manufacturing costs, vaccine pricing, R&D and Federal vaccine procurement.

4.3 The Contractor shall meet with the Project Officer to present and discuss the final report.

SECTION E - INSPECTION AND ACCEPTANCE

E.1. Inspection and acceptance of all services called for by the contract shall be made by the OASH Contracting Officer in conjunction with the Project Officer.

E.2. FAR 52.252-2 Clauses Incorporated by Reference: (JUN 1988)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

52.246-4 Inspection of Services--Fixed Price (FEB 1992)

SECTION F - DELIVERIES OR PERFORMANCE

F.1. Period of Performance

The period of performance for this contract shall be from September 26, 1994, through December 27, 1994.

F.2. Deliveries or Performance

Item	Description	Copies	Delivery Date
1	Meet with Project Officer on Study Plan.	5	By 10/3/94
2	Listing of information sources and contacts.	5	By 10/11/94
3	Study Plan.	5	By 10/11/94
4	Briefing of Project Officer on preliminary findings and analyses.	5	By 12/5/94
5	Briefing of Project Officer on findings and conclusions from the analyses.	5	By 12/27/94
6	Presentation of final report	20	By 12/27/94

F.3. Reporting

A copy of the final report shall be sent to the Contracting Officer, General Acquisitions Branch, DAM/ASC/OM, Parklawn Building, Room 5-101, 5600 Fishers Lane, Rockville, Maryland 20857.

SECTION F

F.4. 52.252-2 Clauses Incorporated by Reference (JUN 1988)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

52.212-13 Stop-Work Order (AUG 1989)

SECTION G - CONTRACT ADMINISTRATION DATA

G.1. Compensation

As consideration for full and faithful performance of the work stated in the Schedule, the Government shall pay the Contractor the firm fixed price as shown in Section B.

Payment will be made in accordance with the schedule provided in Section B, upon presentation of proper invoices and upon receipt and acceptance by the Government of the services specified in the schedule.

G.2. In addition to the information required by SECTION I, FAR Clause 52.232-25, Prompt Payment, the following information is also required for submission of a proper invoice.

(a) Signature of an authorized official certifying the invoice to be correct and proper for payment;

(b) Period of performance for which costs are claimed; and

(c) Tax identification number (employer's identification number) or social security number.

(d) The Contractor shall submit an original and four (4) copies of its invoice to:

DHHS, Public Health Service
Division of Acquisition Management, ASC/OM
General Acquisitions Branch
Parklawn Building, Room 5-101
5600 Fishers Lane
Rockville, MD 20857
Contract Number 282-94-0034

(e) Payment shall be made by:

HRSA Accounts/Finance
Parklawn Building, Room 16-36
5600 Fishers Lane
Rockville, MD 20857
Telephone Number: (301) 443-3016

The information required by FAR 52.232-28 Electronic Funds Transfer Payment Methods shall be submitted to the HRSA Accounts/Finance Office listed above.

G.3. Technical Monitoring

Performance of the work under this contract shall be subject to the technical monitoring of the Project Officer. The term "Technical Monitoring" is defined to include, without limitation, the following:

a. Technical directions to the Contractor which redirect the contract effort, shift work emphasis between work areas or tasks, require pursuit of certain line of inquiry, fill in details or otherwise serve to accomplish contractual statement of work.

b. Providing information to the Contractor for assistance in the interpretation of drawings, specifications or technical portions of the work description.

c. Review and, where required by the contract, approval of technical reports, drawings, specifications and technical information to be delivered by the Contractor to the Government under the contract. Technical direction must be within the general statement of work stated in the contract. The Project Officer does not have the authority to and may not issue any technical direction which (i) constitutes an assignment of additional work outside the general scope of the contract; (ii) constitutes a change as defined in the contract clause entitled "changes"; (iii) in any manner causes an increase or decrease in the total estimated cost, the fixed fee or the time required for contract performance; or (iv) changes any of the expressed terms, conditions, or specifications of the contract.
All technical directions shall be issued in writing by the Project Officer or shall be confirmed by him in writing within five (5) working days after issuance.

The Contractor shall proceed promptly with the performance of technical directions duly issued by the Project Officer in the manner prescribed within the authority under this provision.

If, in the opinion of the Contractor any instructions or direction issued by the Project Officer is within one of the categories as defined in (i) through iv) above, the Contractor shall not proceed but shall notify the Contracting Officer in writing within five (5) working days after the receipt of any such instruction or direction and shall request the Contracting Officer to modify the contract accordingly. Upon receiving such notification from the Contractor, the Contracting Officer shall issue an appropriate contract modification or advise the Contractor in writing that, in his opinion, the technical direction is within the scope of this article and does not constitute a change under the Changes Clause of the contract. The Contractor shall thereupon proceed immediately with the direction given. A failure of the parties to agree upon the nature of the instruction or direction or upon the contract action to be taken with respect thereto shall be subject to the provisions of the contract clause entitled "Disputes."

G.4. The Project Officer responsible for the acceptance of work covered by this contract will be designated by separate correspondence.

SECTION H - SPECIAL CONTRACT REQUIREMENTS

H.1. Rights in Data

The contractor is prohibited from publishing or disseminating information developed during the study without prior written approval from the Project Officer.

SECTION I - CONTRACT CLAUSES

I.1. 52.203-9 Requirement for Certificate of Procurement Integrity-Modification (NOV 1990)

(a) Definitions. The definitions set forth in FAR 3.104-4 are hereby incorporated in this clause.

(b) The Contractor agrees that it will execute the certification set forth in paragraph (c) of this clause when requested by the Contracting Officer in connection with the execution of any modification of this contract.

(c) Certification. As required in paragraph (b) of this clause, the officer or employee responsible for the modification proposal shall execute the following certification:

CERTIFICATE OF PROCUREMENT INTEGRITY-MODIFICATION (NOV 1990)

(1) I, ______________________________ (Name of certifier) am the officer or employee responsible for the preparation of this modification proposal and hereby certify that, to the best of my knowledge and belief, with the exception of any information described in this certification, I have no information concerning a violation or possible violation of subsection 27(a), (b), (d), or (f) of the Office of Federal Procurement Policy Act, as amended* (41 U.S.C. 423), (hereinafter

referred to as "the Act"), as implemented in the FAR, occurring during the conduct of this procurement ________________________ (contract and modification number).

(2) As required by subsection 27(e)(1)(B) of the Act, I further certify that to the best of my knowledge and belief, each officer, employee, agent, representative, and consultant of ________________________ (Name of Offeror) who has participated personally and substantially in the preparation or submission of this proposal has certified that he or she is familiar with, and will comply with, the requirements of subsection 27(a) of the Act, as implemented in the FAR, and will report immediately to me any information concerning a violation or possible violation of subsections 27(a), (b), (d), or (f) of the Act, as implemented in the FAR, pertaining to this procurement.

(3) Violations or possible violations: (Continue on plain bond paper if necessary and label Certificate of Procurement Integrity-Modification (Continuation Sheet), ENTER NONE IF NONE EXISTS)

____

____

(Signature of the officer or employee responsible for the modification proposal and date)

____

(Typed name of the officer or employee responsible for the modification proposal)

* Subsections 27 (a), (b), and (d) are effective on December 1, 1990. Subsection 27(f) is effective on June 1, 1991.

THIS CERTIFICATION CONCERNS A MATTER WITHIN THE JURISDICTION OF AN AGENCY OF THE UNITED STATES AND THE MAKING OF A FALSE, FICTITIOUS, OR FRAUDULENT CERTIFICATION MAY RENDER THE MAKER SUBJECT TO PROSECUTION UNDER TITLE 18, UNITED STATES CODE, SECTION 1001.

(End of certification)

(d) In making the certification in paragraph (2) of the certificate, the officer or employee of the competing Contractor responsible for the offer or bid, may rely upon a one-time certification from each individual required to submit a certification to the competing Contractor, supplemented by periodic training. These certifications shall be obtained at the earliest possible date after an individual required to certify begins employment or association with the contractor. If a contractor decides to rely on a certification executed prior to the suspension of section 27 (i.e., prior to December 1, 1989), the Contractor shall ensure that an individual who has so certified is notified that section 27 has been reinstated. These certifications shall be maintained by the Contractor for a period of 6 years from the date a certifying employee's employment with the company ends or, for an agency, representative, or consultant, 6 years from the date such individual ceases to act on behalf of the contractor.

(e) The certification required by paragraph (c) of this clause is a material representation of fact upon which reliance will be placed in executing this modification.

I.2. 52.220-1 Preference for Labor Surplus Area Concerns (APR 1984)

(a) This acquisition is not a set aside for labor surplus area (LSA) concerns. However, the offeror's status as such a concern may affect (1) entitlement to award in case of tie offers or (2) offer evaluation in accordance with the Buy American Act clause of this solicitation. In order to determine whether the offeror is entitled to a preference under (1) or (2) above, the offeror must identify, below, the LSA in which the costs to be incurred on account of manufacturing or production (by the offeror or the first-tier subcontractors) amount to more than 50 percent of the contract price.

____

____

(b) Failure to identify the locations as specified above will preclude consideration of the offeror as an LSA concern. If the offeror is awarded a contract as an LSA concern and would not have otherwise qualified for award, the offeror shall perform the contract or cause the contract to be performed in accordance with the obligations of an LSA concern.

I.3. 52.232-25 Prompt Payment (MAR 1994)

Notwithstanding any other payment clause in this contract, the Government will make invoice payments and contract financing payments under the terms and conditions specified in this clause. Payment shall be considered as being made on the day a check is dated or an electronic funds transfer is made. Definitions of pertinent terms are set forth in 32.902. All days referred to in this clause are calendar days, unless otherwise specified.

(a) Invoice Payments (1) For purposes of this clause, "invoice payment" means a Government disbursement of monies to a Contractor under a contract or other authorization for supplies or services accepted by the Government. This includes payments for partial deliveries that have been accepted by the Government and final cost or fee payments where amounts owed have been settled between the Government and the Contractor.

(2) Except as indicated in subparagraph (a)(3) and paragraph (c) of this clause, the due date for making invoice payments by the designated payment office shall be the later of the following two events:

(i) The 30th day after the designated billing office has received a proper invoice from the Contractor.

(ii) The 30th day after Government acceptance of supplies delivered or services performed by the Contractor. On a final invoice where the payment amount is subject to contract settlement actions, acceptance shall be deemed to have occurred on the effective date of the contract settlement. However, if the designated billing office fails to annotate the invoice with the actual date of receipt, the invoice payment due date shall be deemed to be the 30th day after the date the Contractor's invoice is dated, provided a proper invoice is received and there is no disagreement over quantity, quality, or Contractor compliance with contract requirements.

(3) The due date on contracts for meat, meat food products, or fish; contracts for perishable agricultural commodities, contracts for dairy products, edible fats or oils, and food products prepared from edible fats or oils, and contracts not requiring submission of an invoice shall be as follows:

(i) The due date for meat and meat food products, as defined in section 2(a) (3) of the Packers and Stockyard Act of 1921 (7 U.S.C. 182 (3)) and further defined in Pub. L. 98-181 to include any edible fresh or frozen poultry meat, any perishable poultry meat food product, fresh eggs, and any perishable egg product, will be as close as possible to, but not later than, the 7th day after product delivery.

(ii) The due date for fresh or frozen fish, as defined in section 204(3) of the Fish and Seafood Act of 1986 (16 U.S.C. 4003(3)), will be as close as possible to, but not later than, the seventh day after product delivery.

(iii) The due date for perishable agricultural commodities, as defined in Section 1(4) of the Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499a(44)), will be as close as possible to, but not later than, the 10th day after product delivery, unless another date is specified in the contract.

(iv) The due date for dairy products, as defined in section 111(e) of the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4502(e)), edible fats or oils, and food products prepared from edible fats or oils, will be as close as possible to, but not later than, the 10th day after the date on which a proper invoice has been received.

(v) If the contract does not require submission of an invoice for payment (e.g., periodic lease payments), the due date will be as specified in the contract.

(4) An invoice is the Contractor's bill or written request for payment under the contract for supplies delivered or services performed. An invoice shall be prepared and submitted to the designated billing officer specified in the contract. A proper invoice must include the items listed in subdivisions (a)(4)(i) through (a)(4)(viii) of this clause. If the invoice does not comply with these requirements, then the contractor will be notified of the defect within 7 days after receipt of the invoice at the designated billing office (3 days for meat, meat food products, or fish, and 5 days for perishable agricultural commodities, edible fats or oils, and food products prepared from edible fats or oils. Untimely notification will be taken into account in the computation of any interest penalty owed the Contractor in the manner described in subparagraph (a)(6) of this clause.

(i) Name and address of the Contractor.

(ii) Invoice date.

(iii) Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).

(iv) Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.

(v) Shipping and payment terms (e.g., shipment number and date of shipment, prompt payment discount terms). Bill of lading number and weight of shipment will be shown for shipments on Government bills of lading.

(vi) Name and address of Contractor official to whom payment is to be sent (must be the same as that in the contract or in a proper notice of assignment).

(vii) Name (where practicable), title, phone number and mailing address of person to be notified in event of a defective invoice.

(viii) Any other information or documentation required by other requirements of the contract (such as evidence of shipment).

(5) An interest penalty shall be paid automatically by the Government, without request from the contractor, if payment is not made by the due date and the conditions listed in subdivisions (a) (5) (i) through (a) (5) (iii) of this clause are met, if applicable.

(i) A proper invoice was received by the designated billing office.

(ii) A receiving report or other Government documentation authorizing payment was processed and there was no disagreement over quantity, quality, or contractor compliance with any contract term or condition.

(iii) In the case of a final invoice for any balance of funds due the Contractor for supplies delivered or services performed, the amount was not subject to further contract settlement actions between the Government and the Contractor.

(6) The interest penalty shall be at the rate established by the Secretary of the Treasury under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611) that is in effect on the day after the due date, except where the interest penalty is prescribed by other government authority. This rate is referred to as the "Renegotiation Board Interest Rate," and it is published in the Federal Register semiannually on or about January 1 and July 1. The interest penalty shall accrue daily on the invoice payment amount approved by the Government and be compounded in 30-day increments inclusive from the first day after the due date through the payment date. That is, interest accrued at the end of any 30-day period will be added to the approved invoice payment amount and be subject to interest penalties if not paid in the succeeding 30-day period. If the designated billing office failed to notify the Contractor of a defective invoice within the periods prescribed in subparagraph (a)(4) of this clause, then the due date on the corrected invoice will be adjusted by subtracting the number of days taken beyond the prescribed notification of defects period. Any interest penalty owed the Contractor will be based on this adjusted due date. Adjustments will be made by the designated payment office for errors in calculating interest penalties, if requested by the Contractor.

(i) For the sole purpose of computing an interest penalty that might be due the contractor, Government acceptance shall be deemed to have occurred constructively on the 7th day (unless otherwise specified in this contract) after the contractor delivered the supplies or performed the services in accordance with the terms and conditions of the contract, unless there is a disagreement over quantity, quality, or contractor compliance with a contract provision. In the event that actual acceptance occurs within the constructive acceptance period, the determination of an interest penalty shall be based on the actual date of acceptance. The constructive acceptance requirement does not, however, compel Government officials to accept supplies or services, perform contract administration functions, or make payment prior to fulfilling their responsibilities.

(ii) The following periods of time will not be included in the determination of an interest penalty:

(A) The period taken to notify the Contractor of defects in invoices submitted to the Government, but this may not exceed 7 days (3 days for meat, meat food products, or fish, and 5 days for perishable agricultural commodities, dairy products, edible fat or oils, and food products prepared from edible fats or oils).

(B) The period between the defects notice and resubmission of the corrected invoice by the Contractor.

(iii) Interest penalties will not continue to accrue after the filing of a claim for such penalties under the clause at 52.233-1, Disputes, or for more than 1 year. Interest penalties of less than $1.00 need not be paid.

(iv) Interest penalties are not required on payment delays due to disagreement between the Government and Contractor over the payment amount or other issues involving contract compliance or on amounts temporarily withheld or retained in accordance with the terms of the contract. Claims involving disputes, and any interest that may be payable, will be resolved in accordance with the clause at 52.233-1, Disputes.

(7) An interest penalty shall also be paid automatically by the designated payment office, without request from the contractor, if a discount for prompt payment is taken improperly. The interest penalty will be calculated as described in subparagraph (a) (6) of this clause on the amount of discount taken for the period beginning with the first day after the end of the discount period through the date when the contractor is paid.

(8) If this contract was awarded on or after October 1, 1989, a penalty amount, calculated in accordance with regulations issued by the Office of Management and Budget, shall be paid in addition to the interest penalty amount if the contractor -

(i) Is owed an interest penalty;

(ii) Is not paid the interest penalty within 10 days after the date the invoice amount is paid; and

(iii) Makes a written demand, not later than 40 days after the date the invoice amount is paid, that the agency pay such a penalty.

(b) Contract Financing Payments (1) For purposes of this clause, contract financing payment means a Government disbursement of monies to a Contractor under a contract clause or other authorization prior to acceptance of supplies or services by the Government. Contract financing payments include advance payments, progress payments based on cost under the clause at 52.232-16, Progress Payments, progress payments based on a percentage or stage of completion (32.102(e)(1)) other than those made under the clause at 52.232-5, Payments Under Fixed-Price Construction Contracts, or the clause at 52.232-10, Payments Under Fixed-Price Architect-Engineer Contracts, and interim payments on cost type contracts.

(2) For contracts that provide for contract financing, requests for payment shall be submitted to the designated billing office as specified in this contract or as directed by the Contracting Officer. Contract financing payments shall be made on the 30th day after receipt of a proper contract financing request by the designated billing office. In the event that an audit or other review of a specific financing request is required to ensure compliance with the terms and conditions of the contract, the designated payment office is not compelled to make payment by the due date specified.

(3) For advance payments, loans, or other arrangements that do not involve recurrent submissions of contract financing requests, payment shall be made in accordance with the corresponding contract terms or as directed by the Contracting Officer.

(4) Contract financing payments shall not be assessed an interest penalty for payment delays.

(c) If this contract contains the clause at 5.213-1, Fast Payment Procedure, payments will be made within 15 days after the date of receipt of the invoice.

I.4. 52.232-28 Electronic Funds Transfer Payment Methods (APR 1989)

Payments under this contract will be made by the Government either by check or electronic funds transfer (through the Treasury Fedline Payment System (FEDLINE) or the Automated Clearing House (ACH), at the option of the Government. After award, but no later than 14 days before an invoice or contract financing request is submitted, the Contractor shall designate a financial institution for receipt of electronic funds transfer payments, and shall submit this designation to the Contracting Officer or other Government official, as directed.

(a) For payment through FEDLINE, the Contractor shall provide the following information:

(1) Name, address, and telegraphic abbreviation of the financial institution receiving payment.

(2) The American Bankers Association 9-digit identifying number for wire transfers of the financing institution receiving payment if the institution has access to the Federal Reserve Communications System.

(3) Payee's account number at the financial institution where funds are to be transferred.

(4) If the financial institution does not have access to the Federal Reserve Communications System, name, address, and telegraphic abbreviation of the correspondent financial institution through which the financial institution receiving payment obtains wire transfer activity. Provide the telegraphic abbreviation and American Bankers Association identifying number for the correspondent institution.

(b) For payment through ACH, the Contractor shall provide the following information:

(1) Routing transit number of the financial institution receiving payment (same as American Bankers Association identifying number used for FEDLINE).

(2) Number of account to which funds are to be deposited.

(3) Type of depositor account ("C" for checking, "S" for savings).

(4) If the Contractor is a new enrollee to the ACH system, a "Payment Information Form," SF 3881, must be completed before payment can be processed.

(c) In the event the Contractor, during the performance of this contract, elects to designate a different financial institution for the receipt of any payment made using electronic funds transfer procedures, notification of such change and the required information specified above must be received by the appropriate Government official 30 days prior to the date such change is to become effective.

(d) The documents furnishing the information required in this clause must be dated and contain the signature, title, and telephone number of the Contractor official authorized to provide it, as well as the Contractor's name and contract number.

(e) Contractor failure to properly designate a financial institution or to provide appropriate payee bank account information may delay payments of amounts otherwise properly due.

I.5. 52.252-2 Clauses Incorporated by Reference (JUN 1988)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

FEDERAL ACQUISITION REGULATION (FAR) (48 CFR Chapter 1) CLAUSES

FAR Clause No.	Title	Date
52.203-1	Officials Not to Benefit	APR 1984
52.203-3	Gratuities	APR 1984
52.203-5	Covenant Against Contingent Fees	APR 1984
52.203-6	Restrictions on Subcontractor Sales to the Government	JUL 1985
52.203-7	Anti-Kickback Procedures	OCT 1988
52.203-10	Price or Fee Adjustment for Illegal or Improper Activity	SEP 1990
52.203-12	Limitation on Payments to Influence Certain Federal Transactions	JAN 1990
52.209-6	Protecting the Governments Interest when Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment	NOV 1992
52.215-1	Examination of Records by Comptroller General	FEB 1993
52.215-2	Audit - Negotiation	FEB 1993
52.215-22	Price Reduction for Defective Cost or Pricing Data	JAN 1991

FAR Clause No.	Title	Date
52.215-24	Subcontractor Cost or Pricing Data	DEC 1991
52.215-31	Waiver of Facilities Capital Cost of Money	SEP 1987
52.215-33	Order of Precedence	JAN 1986
52.219-8	Utilization of Small Business Concerns and Small Disadvantaged Business Concerns	FEB 1990
52.219-13	Utilization of Women-Owned Small Businesses	AUG 1986
52.220-3	Utilization of Labor Surplus Area Concerns	APR 1984
52.222-3	Convict Labor	APR 1984
52.222-26	Equal Opportunity	APR 1984
52.222-35	Affirmative Action for Special Disabled and Vietnam Era Veterans	APR 1984
52.222-36	Affirmative Action for Handicapped Workers	APR 1984
52.222-37	Employment Reports on Special Disabled Veterans and Veterans of the Vietnam Era	JAN 1988
52.223-2	Clean Air and Water	APR 1984
52.223-6	Drug-Free Workplace	JUL 1990
52.227-1	Authorization and Consent	APR 1984
52.227-2	Notice and Assistance Regarding Patent and Copyright Infringement	APR 1984
52.227-14	Rights in Data	JUN 1987
52.229-4	Federal, State and Local Taxes (Noncompetitive Contract)	JAN 1991
52.232-1	Payments	APR 1984
52.232-11	Extras	APR 1984
52.232-17	Interest	JAN 1991
52.232-23	Assignment of Claims	JAN 1986
52.233-1	Disputes	MAR 1994
	Alternate I	DEC 1991
52.233-3	Protest After Award	AUG 1989
52.242-13	Bankruptcy	APR 1991
52.243-1	Changes - Fixed-Price	AUG 1987
	Alternate I	APR 1984
52.244-5	Competition in Subcontracting	APR 1984
52.249-2	Termination for Convenience of the Government (Fixed-Price)	APR 1984
52.249-8	Default (Fixed-Price Supply and Service)	APR 1984

DEPARTMENT OF HEALTH AND HUMAN SERVICES ACQUISITION REGULATION (HHSAR) (48 CFR CHAPTER 3) CLAUSES

HHSAR CLAUSE NO.	TITLE	DATE
352.202-1	Definitions	APR 1984
352.232-9	Withholding of Contract Payments	APR 1984
352.270-1	Accessibility of Meetings, Conferences, and Seminars to Persons with Disabilities	APR 1984
352.270-4	Pricing of Adjustments	APR 1984
352.270-6	Publication and Publicity	JUL 1991
352.270-7	Paperwork Reduction Act	APR 1984

AMENDMENT OF SOLICITATI MODIFICATION OF CONTRACT

PAGE OF PAGES: 1 | 6

2. AMENDMENT/MODIFICATION NO.: Modification Number 2

3. EFFECTIVE DATE: 3-20-95

4. REQUISITION/PURCHASE REQ. NO.: 115631

5. PROJECT NO. (If applicable)

6. ISSUED BY CODE

DHHS/Public Health Service
Division of Acquisition Management, ASC/OM
General Acquisitions Branch
Parklawn Building, Room 5-101
5600 Fishers Lane, Rockville, MD 20857

7. ADMINISTERED BY (If other than Item 6) CODE

OMB No. 0990-0109
OMB No. 0990-0115

DUPLICATE ORIGINAL

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

Mercer Management Consulting, Inc.
2300 N Street, N.W.
Washington, D.C. 20037

CODE | FACILITY CODE

(✓) 9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

X 10A. MODIFICATION OF CONTRACT/ORDER NO.: 282-94-0034

10B. DATED (SEE ITEM 13): 09/24/94

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:

(a) By completing Items 8 and 15, and returning ______ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

5921-2124 7550943 5-AA420 25.97 Increase 885,000

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(✓) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:

X FAR 241-1 Changes - Fixed-Price AUG 1987 Alternate I APR 1984

D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

See attached.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print): Lance B Hackett, Vice President

16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print): Janet H. Miller

15B. CONTRACTOR/OFFEROR: Lance B. Hackett (Signature of person authorized to sign)

15C. DATE SIGNED: 4-04-95

16B. UNITED STATES OF AMERICA BY Janet H Miller (Signature of Contracting Officer)

16C. DATE SIGNED: APR 05 1995

NSN 7540-01-152-8070 | 30-105 | STANDARD FORM 30 (REV. 10-83)

BEST COPY AVAILABLE

The above referenced contract is modified as follows:

1. Section B - Supplies or Services and Prices/Costs the following is added to the Payment Schedule.

Upon the completion of Task 5.3	$55,000
Upon the completion of the project	$30,000

2. Section C - Description/Specifications/Statement of work the following is added to items C.2., C.3. and C.4.

C.2. Purpose of Contract Modification

The purpose of this contract modification is to expand the Statement of Work to conduct additional activities not included in the original contract. The primary users of the findings and conclusions of this analysis would be the National Vaccine Advisory Committee (NVAC) in formulating recommendations on vaccine supply and development, and the Secretary, HHS, in advising Congress on the statutory limitations on the Federal contract price for purchase of existing vaccines. Secondary users would be the Centers for Disease Control and Prevention in negotiating prices for new vaccines to be added to the Vaccines for Children Program, and the National Vaccine Program Office in establishing a long-term policy for public/private collaboration in meeting national vaccine development and supply needs.

C.3. Background

Additional information and analyses are needed to address issues that were not identified in the original Statement of Work, but are relevant to vaccine and immunization policy. Specifically, the scale of production has been identified as a factor influencing U.S. costs and prices. It is important, therefore, to understand the production volume of U.S. manufacturers relative to European companies. Additionally, in examining vaccine pricing, it is necessary to examine how prices have changed compared to other indexes. Finally, it is important in understanding immunization costs to analyze how pricing and other factors, such as the number of recommended doses, have contributed to overall immunization costs. The collection and examination of the information described above, in addition to that envisioned in the original contract's Statement of Work, would make PHS' understanding of the vaccine industry and immunization costs more complete.

The utility of progressing to a quantitative examination of the possible impacts of the Vaccines for Children Program (VFC) on commercial vaccine research and development depends, firstly upon the precision of the description of the industry prior to VFC, and secondly upon the capacity to make accurate predictions about various factors, particularly the volumes of vaccines that will be purchased under VFC in the future.

C.4. Statement of Work for Contract Modification

This contract modification incorporates additional activities to be performed by the contractor that were not anticipated in the original Statement of Work. Specifically, Task 5 is added under which the contractor shall perform the following additional activities:

A. Conduct analyses in the following areas:

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1. Compare the estimated production volumes and respective revenues of major U.S. and European vaccine manufacturers for pediatric vaccines.

2. Describe the trends in vaccine pricing, over the last ten years. Conduct a comparative analysis of vaccine prices with the Consumer Price Index and the Pharmaceutical Products Price Index.

3. Aggregate price in the private sector of vaccines constituting a full pediatric immunization schedule. Describe the factors contributing to changes in these costs over the last ten years (e.g., from various causes, such as price increases, additions to the vaccination schedule and other factors).

B. Incorporate the findings from these analyses into the report described in Task #4 of the original contract (augmented as described below under item D). In compiling the report the contractor will conduct interviews with vaccine companies to validate, to the extent possible, the vaccine economic assumptions and preliminary findings. Incorporate comments from vaccine companies in the analyses, where appropriate.

C. In conjunction with the tasks described above the contractor shall:

1. Meet with NVPO staff to review and discuss the methodology for the analysis and preliminary findings.

2. Prepare and present a briefing for CDC staff on the results of the analyses, with particular emphasis on vaccine pricing and other issues relevant to vaccine procurement contract negotiations.

3. Conduct a briefing for executive staff in the Office of the Assistant Secretary for Health.

4. Conduct a briefing for the National Vaccine Advisory Committee (NVAC) at a meeting scheduled for May 11, 1995. A set of presentation overheads will be provided by the Contractor to senior PHS staff prior to their NVAC presentation. The NVAC presentation will be limited to the topics described below and will not include any theoretical or policy discussion.

D. Augment Project Report With Supplemental Data

The Contractor shall augment the report called for in Task #4 of the original contact to include the additional analyses outlined above (items A.1-3). The augmented report will include discussions on the following items:

+ Estimates on the production volume, revenues and contributors to manufacturing costs for European and U.S. vaccine suppliers
+ Estimates of the volume sold and price to different market segments for U.S. suppliers
+ Comparison of manufacturing costs and pricing of U.S. and European vaccine suppliers
+ Estimates of factors contributing to vaccine pricing for the major markets, including the federal contract

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- Analyses of vaccine pricing trends
- Analysis of aggregate immunization costs trends.

The report will aggregate information on U.S. producers of pediatric vaccines. Discussions on the financial circumstances of individual manufacturers will not be included, except for illustrative purposes, with the agreement of the manufacturer. The report will cover manufacturing costs, distribution costs, cost of returns, marketing costs, administrative costs/corporate overhead, and revenues. It will also identify aggregate 'disposable income' or 'contributions', from which taxes, capital expe(ditures, R&D, and dividends are paid; but unless reliable data on these are provided by companies, it will not attempt to estimate such costs.

Task 5. Conduct Additional Analyses of Vaccine Issues.

5.1 The Contractor shall meet with the Project Officer to discuss production volumes and respective revenues of major U.S. and European vaccine manufacturers for pediatric vaccines.

5.2 The Contractor shall conduct at least two meetings with staff at the National Vaccine Program Office, the Centers for Disease Control and Prevention and other relevant HHS offices to discuss methods proposed for use in estimating production, distribution, administrative, and marketing costs, and revenues. These discussions will draw upon the contractors experience in obtaining information on these from vaccine companies.

5.3 Based on the discussions above the Contractor shall perform expanded analyses for the project's working papers.

5.4 The Contractor shall conduct follow-up interviews with vaccine companies to validate, to the extent possible, the vaccine economic assumptions and preliminary findings.

5.5 Conduct a briefing for the Inter-Agency Group and incorporate relevant comments into the report.

5.6 The Contractor shall prepare a report on the study's findings.

5.7 The Contractor shall meet with the Project Officer to present and discuss the report.

5.8 The Contractor shall conduct a briefing for the Assistant Secretary for Health and the National Vaccine Advisory Committee on the report.

2. Section F - Deliveries or Performance, F.1. Period of Performance is deleted in its entirety and replaced with the following:

The Period of Performance for this contract shall be from September 26, 1994, through May 8, 1995.

3. Section F - Deliveries or Performance the following is added to F.2.:

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Item	Description	Copies	Delivery Date
5.1	Meet with the Project Officer	-	March 27, 1995
5.2	Conduct meetings NVPO,CDC,etc.	-	April 3, 1995
5.3	Perform expanded analyses for the project's working papers	-	April 10, 1995
5.4	Conduct follow-up interviews with vaccine companies	-	April 17, 1995
5.5	Conduct briefings	-	As scheduled*
5.6	Prepare revised report	50	May 8, 1995

*Note: The Contractor has agreed to conduct briefings on the study findings for relevant HHS officials and the National Vaccine Advisory Committee on dates to be determined.

4. Section G - Contract Administration Data, G.2.(e) is deleted in its entirety and replaced with the following:

(e) Payment shall be made by:

CDC Financial Management Office
255 East Paces Ferry Road
Atlanta, GA 30305

Telephone Number: (404) 842-6889

The information requred by FAR 52.232-29 Electronic Funds Transfer Payment Methods shall be submitted to the CDC Finanacial Management Office listed above.

Question. Please provide a breakdown, by antigen of estimated CDC vaccine purchases in 1995 and 1996.

Answer. The following data were collected from the States in a survey conducted in January 1994 which provided estimates of the number of doses of each vaccine to be purchased by funding source (Section 317 and VFC) in FY 1995 and has been tabulated to indicate the total number of doses States estimated would be purchased using Federal funds:

VACCINE	NUMBER OF DOSES
DTP	4,477,912
Dtap	3,783,816
DT	246,794
Td	3,763,368
DTP/Hib	9,389,787
Hib	4,953,181
Hepatitis B (Pediatric)	13,037,371
Hepatitis B (High Risk)	89,332
Hepatitis B (Adult)	4,186,348
MMR	8,855,735
MR	26,950
Measles	112,586
Mumps	7,765
Rubella	12,418
OPV	14,845,617
IPV	108,455

CDC is in the process of surveying the States for estimates of number of doses to be purchased in FY 1996. When the collection of those data are completed, CDC will provide both FY 1995 current estimates and FY 1996 data to the Committee.

Vaccine Funding

Question. Please provide the committee with a state-by-state breakdown for FY 1993, 1994, 1995 (to date) as follows:

federal funds allocated by CDC for vaccine purchase;
federal funds obligated by the state for vaccine purchase;
federal funds allocated by CDC for infrastructure (IAP);
federal funds obligated by the state for infrastructure.

Answer. Please see attached table for federal funds allocated by CDC for vaccine purchase and infrastructure (IAP). Data on the amount of federal funds obligated by state for vaccine purchase is being tabulated and will be provided to the committee as soon as it is completed.

Because of grant regulations, CDC does not collect expenditure reports from immunization grantees. Each grantee is required to submit a Financial Status Report (FSR) no later than 90 days after the end of the calendar year budget period. Grantees are required only to indicate the total amount of unobligated financial assistance balance but are not required to report this balance by component, therefore CDC is unable to determine the amount of expenditures specifically for infrastructure.

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ALLOCATION OF FEDERAL FUNDS FOR VACCINE PURCHASE and INFRASTRUCTURE

	1993 FUNDS ALLOCATED			1994 FUNDS ALLOCATED			1995 FUNDS ALLOCATED		
GRANTEE	317 VACCINE	VFC VACCINE	IAP	317 VACCINE	VFC VACCINE	IAP	317 VACCINE	VFC VACCINE	IAP
ALABAMA	$3,821,932	$0	$467,528	$3,136,247	$1,222,118	$2,036,845	$1,507,028	$6,284,998	$1,285,834
ALASKA	$1,109,426	$0	$158,484	$788,436	$0	$392,923	$817,405	$0	$240,150
ARIZONA	$2,072,413	$0	$779,363	$1,158,881	$1,487,751	$2,308,858	$1,120,180	$8,269,017	$1,395,860
ARKANSAS	$2,845,565	$0	$429,093	$2,046,353	$647,998	$1,169,051	$860,118	$2,498,473	$732,363
CALIFORNIA	$16,867,192	$0	$7,205,962	$13,243,006	$11,979,195	$16,291,904	$8,543,678	$88,360,566	$12,448,397
CHICAGO	$2,777,213	$0	$837,830	$3,489,796	$906,845	$1,731,790	$1,703,851	$2,724,867	$1,228,392
COLORADO	$2,481,666	$0	$647,536	$2,231,644	$894,570	$1,763,027	$1,162,128	$4,903,889	$1,092,811
CONNECTICUT	$2,078,668	$0	$383,539	$1,816,833	$401,076	$1,643,809	$803,005	$2,410,006	$1,004,756
DELAWARE	$754,563	$0	$128,642	$892,873	$176,741	$357,259	$408,315	$890,097	$227,096
DIST/COLUMBIA	$1,224,247	$0	$150,976	$1,174,097	$311,865	$389,593	$116,274	$1,606,495	$240,537
FLORIDA	$7,497,899	$0	$2,396,457	$7,200,813	$2,198,102	$6,012,006	$3,313,636	$14,793,604	$4,375,193
GEORGIA	$4,738,862	$0	$1,334,229	$4,280,042	$6,996,028	$3,858,105	$1,968,828	$21,367,454	$2,719,802
GUAM	$523,303	$0	$48,009	$177,080	$51,742	$204,522	$186,147	$283,875	$123,618
HAWAII	$912,606	$0	$240,236	$339,510	$263,821	$832,430	$595,842	$1,429,076	$411,426
HOUSTON	$2,534,880	$0	$371,889	$70,252	$0	$1,511,384	$0	$0	$957,628
IDAHO	$1,219,514	$0	$128,437	$1,052,498	$548,973	$357,185	$481,252	$3,365,299	$338,560
ILLINOIS	$5,201,204	$0	$1,546,521	$4,770,784	$2,034,198	$4,494,572	$2,033,724	$10,217,690	$2,942,424
INDIANA	$3,197,349	$0	$1,027,816	$3,104,618	$1,287,740	$2,812,982	$1,539,035	$8,740,823	$1,950,333
IOWA	$2,067,400	$0	$494,645	$1,843,928	$1,110,469	$1,316,858	$834,414	$5,093,423	$798,172
KANSAS	$1,853,180	$0	$303,023	$1,813,774	$825,516	$1,292,219	$987,301	$3,654,079	$782,504
KENTUCKY	$2,852,479	$0	$408,246	$2,636,563	$685,594	$1,795,436	$1,209,242	$3,493,898	$1,106,550
LOUISIANA	$3,893,269	$0	$873,429	$3,088,272	$1,740,193	$1,514,382	$1,452,722	$8,870,740	$1,469,999
MAINE	$1,275,913	$0	$230,471	$1,141,944	$206,682	$832,351	$0	$1,076,839	$382,196
MARSHAL ISLANDS	$0	$0	$24,115	$10,000	$0	$43,181	$0	$0	$39,991
MARYLAND	$3,022,490	$0	$633,009	$2,761,584	$823,667	$2,848,616	$1,456,887	$3,988,907	$1,626,857
MASSACHUSETTS	$3,683,006	$0	$1,130,396	$3,303,076	$1,029,750	$2,990,796	$1,539,035	$6,034,020	$1,841,331
MICHIGAN	$6,235,793	$0	$1,887,374	$5,156,460	$1,884,750	$4,523,483	$2,846,197	$9,101,395	$3,293,895
MICRONESIA	$0	$0	$23,019	$247,565	$73,341	$98,087	$121,500	$580,215	$59,274
MINNESOTA	$2,422,631	$0	$887,888	$2,163,135	$705,157	$2,299,046	$1,232,798	$4,198,768	$1,399,589
MISSISSIPPI	$2,814,704	$0	$562,665	$2,576,836	$159,165	$896,333	$1,177,893	$3,229,070	$883,377
MISSOURI	$3,202,151	$0	$847,242	$3,214,266	$570,592	$2,584,396	$1,334,877	$6,006,229	$1,957,961
MONTANA	$952,641	$0	$145,930	$932,804	$120,112	$396,108	$471,133	$261,565	$239,417
NEBRASKA	$1,182,464	$0	$296,604	$1,108,820	$321,323	$818,190	$604,621	$1,760,966	$494,533
NEVADA	$1,666,712	$0	$248,896	$2,547,052	$413,635	$881,505	$732,172	$2,216,625	$444,147
NEW HAMPSHIRE	$1,083,917	$0	$137,970	$1,156,402	$179,225	$383,605	$620,325	$1,023,190	$356,207
NEW JERSEY	$3,883,648	$0	$902,522	$3,530,139	$1,376,104	$3,883,944	$1,880,376	$7,981,196	$2,599,217
NEW MEXICO	$2,416,370	$0	$333,629	$2,166,730	$679,383	$572,822	$861,946	$3,805,892	$562,013
NEW YORK CITY	$4,400,517	$0	$1,233,066	$4,357,329	$4,429,619	$3,762,987	$2,112,247	$23,787,098	$2,781,285
NEW YORK STATE	$4,628,740	$0	$1,940,546	$4,508,794	$4,596,547	$5,022,117	$2,355,695	$16,876,835	$3,727,851
NORTH CAROLINA	$4,369,948	$0	$772,092	$4,065,409	$1,718,930	$3,357,173	$1,751,045	$8,799,569	$2,441,323
NORTH DAKOTA	$1,148,701	$0	$76,811	$1,043,328	$202,536	$210,832	$581,094	$896,324	$195,211
N. MARIANA ISL.	$242,000	$0	$13,789	$688,357	$19,824	$58,789	$150,000	$627,888	$35,532
OHIO	$5,819,872	$0	$1,996,796	$5,071,884	$2,151,413	$6,494,987	$2,536,299	$10,746,452	$3,367,290
OKLAHOMA	$2,612,684	$0	$625,996	$2,302,068	$1,194,242	$1,578,016	$1,164,276	$5,906,071	$873,205
OREGON	$1,760,003	$0	$327,834	$1,030,094	$1,142,918	$1,411,111	$531,087	$4,757,146	$1,219,358
PALAU	$208,857	$0	$4,049	$87,500	$16,128	$17,249	$11,000	$60,392	$10,425
PENNSYLVANIA	$8,519,519	$0	$2,211,595	$6,813,933	$1,239,730	$3,962,883	$500,000	$7,049,320	$2,870,491
PHILADELPHIA	$0	$0	$0	$0	$0	$0	$1,200,000	$1,956,520	$2,258,138

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ALLOCATION OF FEDERAL FUNDS FOR VACCINE PURCHASE and INFRASTRUCTURE

	1993 FUNDS ALLOCATED			1994 FUNDS ALLOCATED			1995 FUNDS ALLOCATED		
GRANTEE	317 VACCINE	VFC VACCINE	IAP	317 VACCINE	VFC VACCINE	IAP	317 VACCINE	VFC VACCINE	IAP
PUERTO RICO	$10,088,542	$0	$765,382	$3,864,388	$2,153,085	$2,025,198	$1,790,306	$10,087,588	$1,213,192
RHODE ISLAND	$1,801,324	$0	$185,001	$1,141,835	$184,753	$487,823	$843,882	$881,165	$804,708
SAMOA	$154,400	$0	$21,248	$286,400	$74,032	$90,521	$31,500	$406,882	$54,713
SAN ANTONIO	$1,918,167	$0	$150,412	$1,710,000	$833,081	$418,298	$898,769	$3,900,906	$390,280
SOUTH CAROLINA	$2,643,103	$0	$431,179	$2,314,148	$428,197	$1,878,803	$1,224,948	$3,807,506	$1,182,853
SOUTH DAKOTA	$1,046,040	$0	$186,678	$1,051,838	$81,800	$371,414	$585,380	$817,996	$224,492
TENNESSEE	$3,530,291	$0	$613,802	$4,241,184	$1,703,371	$2,411,408	$1,429,104	$8,883,037	$1,521,780
TEXAS	$8,679,584	$0	$2,086,072	$10,212,863	$5,274,927	$4,965,717	$4,724,148	$27,061,819	$7,504,568
UTAH	$1,868,564	$0	$278,928	$1,782,928	$379,847	$1,198,807	$1,050,278	$1,886,318	$738,190
VERMONT	$1,020,690	$0	$86,880	$828,253	$111,177	$185,465	$488,838	$443,768	$171,723
VIRGIN ISLANDS	$419,082	$0	$27,103	$298,317	$48,052	$71,295	$184,887	$367,762	$43,098
VIRGINIA	$3,291,198	$0	$735,618	$2,765,621	$1,865,539	$2,045,763	$1,008,973	$8,942,504	$2,002,833
WASHINGTON	$2,858,880	$0	$1,024,798	$2,885,265	$1,387,842	$2,801,298	$1,279,130	$5,298,828	$2,218,387
WEST VIRGINIA	$1,882,310	$0	$188,806	$1,701,638	$256,057	$729,408	$832,336	$2,486,367	$869,063
WISCONSIN	$2,774,678	$0	$846,183	$2,807,102	$688,295	$2,251,158	$1,523,330	$2,983,480	$1,481,867
WYOMING	$1,102,421	$0	$54,638	$763,318	$102,801	$151,950	$424,000	$818,507	$140,862
TOTAL	$165,004,380	$0	$44,893,287	$160,878,918	$76,084,004	$124,268,480	$74,881,757	$388,881,588	$94,402,033

NOTE: 1994 317 Vaccine does not include $30,747,104.01 for Excise Tax paid on floor stock...

1994 IAP includes Basic IAP funds plus Performance IAP funds....

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Question. DHHS is requesting $529 million for vaccine purchase in 1996. Since release of this request in the President's budget, the ACIP has recommended the addition of new vaccines or doses of existing vaccines to the list of products to be purchased through the VFC program. To what extent will these new recommendations increase the cost for vaccine purchase in 1996? Please provide estimates for each new recommended dose and vaccine.

Answer. CDC estimates that the new ACIP recommendations will cost $56.85 million in FY 1996 for the VFC program. The new Hepatitis B recommendation will cost an estimated $19.8 million, the new second dose MMR recommendation will cost an estimated $26.55 million, and the new influenza recommendation will cost an estimated $10.5 million. The current FY 1996 estimate anticipated these new recommendations and provides sufficient funding to implement them.

Vaccine Excise Tax

Question. You have said the Department is considering several formulas to reduce the vaccine excise tax. What are those formula changes and what are the arguments for and against each option?

Answer. The FY 1996 President's budget proposes restructuring vaccine excise taxes to reduce income to the Vaccine Injury Trust Fund by 50 percent. The Administration is considering two options; a flat-tax approach and a risk-based approach.

A flat-tax structure is consistent with the Advisory Commission on Childhood Vaccines (ACCV) recommendation. Under this approach each covered antigen would be taxed at the same rate. It has the benefit of simplicity. There is no need to determine which vaccines will generate the most claims, or pose the "most risk" for injury. Also the tax can be imposed more timely. Since coverage of new vaccines can begin more quickly, the National Vaccine Injury Compensation Program (NVICP) can provide seamless protection for children and their parents. It is "antigen-based" and is easily applied when new vaccine combinations are developed. For example, if a new vaccine including six antigens were introduced, it would be taxed at six times the base rate. Collecting the same tax on each vaccine, abates parental and provider concern that some vaccines may pose an unacceptable risk for children. Vaccine excise taxes would be managed based on revenue needed to pay claims from the Trust Fund, rather than on an individual risk basis. Periodically, only a single action would be needed to reset the flat tax rate to adjust revenue to the Trust Fund. In addition, there is wide support. A flat tax has been formally endorsed by the National Vaccine Advisory Committee, the Department of Justice, the American Academy of Pediatrics, and the American Academy of Family Practice. The main argument against the flat-tax approach is the belief by some that vaccine excise taxes should be determined relative to the risk of injury and potential claims against the Trust Fund. Newer, safer vaccines should not be taxed at higher rates to subsidize older, more risky vaccines.

While the risk-based approach is perceived as fair by requiring that the tax levied on each vaccine pays for claims against that vaccine, or is self-financing, and satisfies those who believe that the tax levied should be commensurate with risk and that "more safe" vaccines should be taxed at lower rates; there are also problems with this approach. Combination vaccines with multiple antigens make it very difficult to know which antigen caused an adverse reaction. In addition, in a routine provider visit, the ACIP/CDC recommended series requires that multiple vaccines be given to a child simultaneously. With a risk-based approach, it is difficult to establish a reasonable tax as new vaccines--such as haemophilus influenzae type b, hepatitis b, and varicella--are introduced. While vaccines are judged to be safe and effective before introduction, there is, however, insufficient wide-spread usage to make a reasonable tax assumption about the rare, but real risk associated with a particular antigen.

National Vaccine Advisory Committee

Question. Please provide the committee a breakdown of the resources, including staff support and other financial support, that DHHS commits to the National Vaccine Advisory Committee, the Advisory Commission on Childhood Vaccines, and the Advisory Committee on Immunization Practices. Also, please provide a description of each committee's mission and responsibilities.

Answer. The National Vaccine Advisory Committee (NVAC) studies and recommends ways to encourage the availability of an adequate supply of safe and effective vaccination products in the United States; recommends research priorities and other measures the Director of the National Vaccine Program (NVP) should take to enhance the safety and efficacy of vaccines; and advises the Director of the NVP in the overall implementation of activities to achieve optimal prevention of human infectious disease through immunization and to achieve optimal prevention against adverse reactions to vaccine. The NVAC is mandated by law (Title XXI, Public Health Service Act). Approximately $65,000 is spent annually and 6 FTEs are used to support the activities of the NVAC.

The National Childhood Vaccine Injury Act of 1986 (the Act) established the National Vaccine Injury Compensation Program (VICP). The VICP went into effect in October, 1988 and is a Federal "no-fault" system designed to compensate those individuals who have been injured by childhood vaccines, whether administered in the private or public sector. The Secretary of Health and Human Services is mandated under the Act to appoint an advisory commission to give advice regarding the VICP. Under the Act the function of the Advisory Commission on Childhood Vaccines (ACCV) is to advise the Secretary in the following areas: on the implementation of the VICP, on changes to the Vaccine Injury Table, on implementing the Secretary's responsibilities regarding the need for vaccines with fewer or no adverse reactions, on means to compile data related to the frequency and severity of vaccine adverse reactions, and on recommendations for research related to vaccine injuries which should be conducted to carry out the VICP. The 9 member ACCV appointed by the Secretary includes health professionals, members of the general public, attorneys, as well as 4 ex-officio members from PHS Agencies. The FY 1995 budget of the ACCV is approximately $100,000, which is paid from HHS administrative expenses for the VICP. Approximately 2.1 FTEs are provided to support the ACCV.

The Advisory Committee on Immunization Practices (ACIP) develops written recommendations for the routine administration of antigens and related agents (e.g., vaccines, antisera, immune globulins) for effective disease control in pediatric and adult populations. In accordance with Section 13631 of the Omnibus Budget Reconciliation Act of 1993, the Committee establishes, periodically reviews and, as appropriate, revises a list of vaccines for routine administration to children under the Vaccines for Children program.

This includes schedules regarding the appropriate periodicity, dosage, and contraindications applicable to the pediatric vaccines. The Secretary of the Department of Health and Human Services uses the list for purchase, delivery, and administration of pediatric vaccines. Additionally, the Committee reviews and reports regularly on existing immunization practices and recommends improvements in the national immunization efforts. Various States have adopted legislation which specifically name the ACIP recommendations as the guide to reimbursable immunizations within the State. The ACIP resources budgeted by HHS for FY94 was $114,000 and 1.5 FTE's.

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QUESTIONS SUBMITTED BY SENATOR HERB KOHL

LIHEAP

Question. Last year the Administration proposed over $700 million in cuts to the Low Income Home Energy Assistance Program (LIHEAP). Instead, this Subcommittee and the Congress restored funding. Under the budget proposal we are considering today, you seek level funding of $1.3 billion for the program. I am pleased that you have seen the light on LIHEAP.

Unfortunately, the House will soon vote to kill this important program by eliminating all forward funding for LIHEAP. I am strongly opposed to terminating this program that provides critical help to almost 130,000 low-income households in Wisconsin. LIHEAP helps 5.8 million people nationwide pay their energy bills. It is not a welfare program; only 27% of those who benefit from the program are on AFDC. The rest are elderly, disabled and the working poor.

In light of the House proposal, and your Department's previous support for cuts, what is the Administration's official position on LIHEAP? How committed is the Department and the Administration to preserving LIHEAP? Will it be part of the President's request in next year's budget?

Answer. This Administration has requested that funding be continued at the current level for both FY 1996 and FY 1997.

Question. Some justify the wholesale dismantling of historically effective safety net programs, such as LIHEAP, senior meals and children's nutrition program, in the guise of welfare reform. I sponsored one of the first welfare proposals that recognized AFDC was not working and provided flexible block grants to states. My proposal is based on the assumption that states are better able to address the unique needs of their economies and work forces. However, while my proposal is targeted and limited, the welfare reform proposal we see evolving in the other body appears haphazard and dangerous.

Does the Administration believe that the needs covered by LIHEAP, senior meals, and school lunches can be met differently than they are in current federal programs? If so, how? If not, how does the Administration plan to defend these programs from being lumped into expansive welfare initiatives?

Answer. LIHEAP is already a block grant program, and States are allowed to design their own programs within very broad Federal guidelines. Over the years, however, Congress has added more restrictive provisions that limit a State's options.

We would object, however, to combining LIHEAP with the welfare reform proposal. We considered this same issue in developing the Administration's proposal for welfare reform. However, a substantial proportion of LIHEAP recipients are elderly and only about one-third of LIHEAP recipients also receive AFDC payments.

Medicare SELECT

Question. Medicare SELECT: Bruce Vladeck, the Administrator of the Health Care Financing Administration, has urged Congress to slow down on legislation extending the Medicare SELECT Program. Medicare SELECT is an effective managed care program that meets the supplemental health insurance needs of over 26,000 elderly residents of Wisconsin. The temporary extension of the SELECT program which I fought hard to obtain last Congress, will expire next month.

Answer. I have heard nothing but good things about the program from beneficiaries and from participating health plans in Wisconsin.

Question. What is the Administration's position on Medicare SELECT?

Answer. In states like Wisconsin, where managed care plans have taken an active interest in the program and where the state is providing effective regulatory oversight, Medicare SELECT appears to be a viable alternative to non-network Medicare supplement products. However, the case study portion of the evaluation indicates that in many of the other demonstration states, Medicare SELECT plans are often nothing more than discounting arrangements between insurers and hospitals. Therefore, the Administration believes Congress would benefit from a review of the complete final evaluation of the Medicare SELECT demonstration before beginning deliberations on Medicare SELECT as a permanent program. Preliminary results from the remaining pieces of the evaluation are expected the latter part of this summer. The Administration supports a temporary extension of the current 15-State demonstration, in order to provide time to examine what we have learned from the demonstration. This would permit Congress to make any appropriate changes to the SELECT statutory authority, if the evaluation/evidence demonstrates that the program is not fulfilling original expectations.

Question. HCFA justifies holding back the SELECT program until results of a study due two months ago are made available. What's delaying the study? Has HCFA seen preliminary results of the study and, if so, can you share with the Subcommittee its initial findings?

Answer. The evaluation of Medicare SELECT was due on January 1, 1995, one day after the demonstration ended. As is true for all other Medicare supplement products, Medicare SELECT plans are regulated (and certified) by the states. Therefore, for reasons we did not control, many states did not begin approving SELECT applications until well into the 3-year life of the demonstration (1992-1994) and initially the evaluator found primarily rollover business to evaluate for the case study portion of the evaluation. Because of the amount of time required for states and then new issuers to "gear up," the bulk of data needed became available only near the end of the demonstration period.

We have previously made available the case study portion of the SELECT evaluation. This study raises two areas of concern. One major concern is with the adequacy of beneficiary protections under Medicare SELECT. There is no requirement for states to review the actual operations of the SELECT plans once they are approved to assure that quality and access standards are being met.

Our second concern is whether Medicare SELECT will make any contribution to increasing the efficiency of the Medicare program. As you know, Medicare SELECT was designed to create a hybrid of managed care and Medigap that would be beneficial both to beneficiaries and to Medicare. Our experience under the demonstration, however, is that plans generally achieve savings for beneficiaries through hospital discounting arrangements rather than through the active management of care or the efficiency of the SELECT networks.

Question. As Congress looks for ways to restrain Medicare costs, the Medicare SELECT experiment will be focused upon as an effective managed care model. Does the Department believe that Medicare managed care options, such as Medicare SELECT, can save money for beneficiaries and the Federal government? If so, what is HCFA doing to expand managed care options in the Medicare program.

Answer. We believe that Medicare SELECT has saved money for beneficiaries and is therefore a popular option. The final evaluation should provide information on whether the SELECT program has also resulted in Medicare program savings.

As for other types of managed care savings, in the Medicare risk HMO program, payments are 95 percent of what expected costs would be in the fee-for-service sector for HMO enrollees. If Medicare HMO enrollees were representative of the whole Medicare population, that is, neither sicker or healthier, then Medicare would save five percent. A comprehensive evaluation of Medicare's cost/savings experience with the risk HMO program indicated that because HMO enrollees were, on average, somewhat healthier than beneficiaries in traditional fee-for-service Medicare, Medicare was actually paying about 5.7 percent more for those beneficiaries enrolled in risk HMOs. That evaluation was completed in December 1992 and was based on enrollment data from prior years; we are initiating a new study to determine whether recent changes in managed care markets are influencing risk HMO demographics and utilization.

We believe it is desirable for Medicare beneficiaries to have a full range of managed care choices. To that end, the Administration is developing two types of options that will offer beneficiaries greater choice. First, HCFA is developing guidelines so that HMOs and CMPs have the choice of offering beneficiaries a self-referral option. This option may appeal to beneficiaries who would be more comfortable in HMOs if they knew they had some insurance coverage if they chose to receive limited care out-of-plan.

In addition, the Administration is developing a proposal to allow Preferred Provider Organizations (PPOs) to participate in the Medicare HMO program. These plans have proven to be popular in the commercial market. Under such plans, beneficiaries would face nominal copayments if they chose a provider in the plan's network but would have the option to go to any physician at any time, if they were willing to pay the higher cost-sharing.

We are also developing a competitive bidding demonstration, in an effort to improve our method for paying managed care plans. Competitive pricing has received widespread support and attention from industry, academia and commercial payers, who believe it will result in payments that more accurately reflect the true costs of doing business, in addition to promoting efficiency through greater competition among health plans.

EACH/RPCH

Question. I note in your testimony that you defend rural health programs, especially research, from 1995 rescissions before the House. Yet, your budget recommends eliminating the Rural Health Transition Grants and the Essential Access Hospital/Rural Primary Care Hospital Grant programs. This would save the Department about $20 million. I am very concerned about the impact eliminating these programs will have on Wisconsin's rural communities and rural areas throughout the country.

Why does the administration believe that these programs are no longer useful or a priority? Does the administration assert that access to care in rural areas is no longer a problem? What impact will these cuts have on health care delivery and access in rural areas?

Answer. While we are no longer proposing funding for Rural Health Transition Grants (RHTG) and the Essential Access Community Hospital/Rural Primary Care Hospital (EACH/RPCH) programs, we are providing substantial support through Medicare program payments. In FY 1995, payment for rural hospitals will be increased to the urban rate. Enhanced payments are also made to sole community providers, rural referral centers, and Essential Community Hospitals and Rural Primary Care Hospitals.

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In addition, we have begun a new grant program to provide funds to States to encourage innovations in rural health financing and delivery systems. The State Rural health Network Reform Initiative is designed to enable States to address rural health issues within the context of comprehensive statewide health reform.

Through this program, HCFA awarded funds in FY 1994 to Florida, Minnesota, Mississippi, Nebraska, North Carolina and Washington to support the planning development and implementation of new financing and delivery arrangements that enhance access to health care services and maintain a viable delivery system for rural residents.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Appalachian Laboratory on Occupational Safety and Health

Question. Please provide the number of Full-Time Equivalents for the Division of Safety Research and the Division of Respiratory Disease Studies at this facility in FY 1994, FY 1995, and the number projected for FY 1996.

Answer. The breakdown is as follows:

	FY 1994	FY 1995	Projected FY 1996
Division of Safety Research	96	114	118
Division of Respiratory Disease Studies	146	145	139

Question. Please provide the funding level for the above mentioned Divisions in FY 1994, FY 1995 and the projected level for FY 1996.

Answer. The funding level is as follows:

	FY 1994	FY 1995	Projected FY 1996
Division of Safety Research	13,661,573	12,365,000	15,500,000
Division of Respiratory Disease Studies	15,040,103	15,338,000	15,000,000

New Occupational Safety and Health Laboratory

Question. Please provide the number of Full-Time Equivalents at this facility in FY 1994 and FY 1995, and the projected number of FTEs at this facility for FY 1996 and FY 1997.

Answer. The FTE levels for the new state-of-the-art occupational safety and health laboratory in Morgantown, West Virginia follows. Please note that this laboratory will house the Health Effects Laboratory Division and potions of the Division of Safety Research and the Division of Respiratory Disease Studies.

FY 1994	FY 1995	Projected FY 1996	Projected FY 1997
42	117	217	303

Question. What is the timetable for bringing the director and branch chiefs on-board for the new laboratory?

Answer. It is anticipated that the Director and Branch Chiefs will report in August and September, 1995.

Question. Please furnish the funding level required for staffing and research for FY 96 and FY 97 at this facility.

Answer. The funding level is as follows:

	FY 1996	FY 1997
Required Funding Level	$27,532,000	n/a

It will require approximately $18 million in FY 1997 for personnel costs for the full compliment of 303 FTE at the new Morgantown laboratory and we are committed to providing funding at least that level. It would be premature at this time to identify precise funding for this laboratory until I have reviewed all elements of our FY 1997 budget. As you know, the President's budget for FY 1996 assumes that all discretionary activities of this department -- with the exception of a few high priority items like Ryan White and Childhood Immunization -- will sustain successive reductions of -3%, -5%, -7% and -9% from the FY 1996 levels from FY 1997 through FY 2000. I am committed to reaching those levels in the aggregate for this Department, but plan to review each program request individually as we develop the FY 1997 budget to determine the allocation of those reductions.

Question. When will the new laboratory be completed and ready for occupancy?

Answer. It is anticipated that the new building will be ready for occupancy in October 1995.

SUBCOMMITTEE RECESS

Senator SPECTER. The subcommittee will recess to reconvene at 2 p.m., Thursday, March 16, in room SD–192. At that time we will hear testimony from the Secretary of Education, Hon. Richard W. Riley, on fiscal 1996 budget requests of his Department.

[Whereupon, at 3:30 p.m., Thursday, March 9, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, March 16.]

DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

THURSDAY, MARCH 16, 1995

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:06 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Arlen Specter (chairman) presiding.

Present: Senators Specter, Cochran, Gorton, Bond, Jeffords, Gregg, Harkin, and Kohl.

DEPARTMENT OF EDUCATION

SECRETARY OF EDUCATION

STATEMENT OF HON. RICHARD W. RILEY, SECRETARY OF EDUCATION

ACCOMPANIED BY:

- **MARSHALL S. SMITH, UNDER SECRETARY**
- **SALLY H. CHRISTENSEN, DEPUTY ASSISTANT SECRETARY FOR BUDGET**

OPENING REMARKS OF SENATOR ARLEN SPECTER

Senator SPECTER. The Subcommittee on Labor, Health and Human Services, and Education, will continue hearings on fiscal year 1996 appropriations.

Again, I welcome the distinguished Secretary of Education, Richard Riley, to the subcommittee.

Your agency is charged with very difficult tasks, Mr. Secretary, which we all know. The education of our Nation's children and adults over the next several months will be the subject of this committee's analysis.

FISCAL YEAR 1996 REQUEST FOR DISCRETIONARY FUNDING

We have a budget request for discretionary spending for fiscal year 1996 totaling $25.8 billion, an increase of almost $680 million over fiscal year 1995.

There have been offsettings for which we commend you, Mr. Secretary, where there are cuts in other programs totaling some $506 million.

FEDERAL BUDGET DEFICIT

The stage has been set by some excellent staff work here today by Bettilou Taylor and Craig Higgins and others on some charts which depict the current situation, with the first bar chart showing the Federal budget deficits projected by the administration through the year 2000. It shows that the deficits stay at nearly $200 billion annually for the next 5 fiscal years.

Chart 2 depicts the major changes in the Department of Education's discretionary budget request. Chart 3 is a line graph showing the President's budget projection of Department of Education discretionary spending proposals from 1994 through the year 2000.

Mr. Secretary, I, and I think most of us, are committed to the goal of a balanced budget by the year 2002. It seems to me that this goal has been the mandate of the American people from the last election.

And we can debate on how each of us takes it. But at least, speaking for myself, I think we have to move toward that balanced budget on a glide path by the year 2002.

FISCAL 1995 HOUSE RESCISSION PROPOSALS

How we get there is a matter of individual judgment. And we have had certain recommendations by the House of Representatives, which have fallen, I think, a little disproportionately on this subcommittee.

We're looking at rescissions of $17 billion with about $5.9 million coming out of this subcommittee.

Our discretionary budget is 25 percent of the total. We are being asked to take, in this rescission package, about 35 percent of the cuts.

And I believe that, as we look to that glide path on being a balanced budget, which I am personally committed to do, as I say, by the year 2002, we have to have a pro rata sharing from other programs as well. At least some of the entitlements are going to have to come into play to meet those objectives.

And there have been some who have talked about eliminating the Department of Education, which I am personally opposed to.

I believe that there is a very important leadership role for the Federal Government and the Department of Education, recognizing that the control really is local with the school boards and the States.

And that is something that we are not going to settle here today. But as we take a look at the funding, we do have to be very conscious of where we have to move on the balanced budget glide path.

In the absence of the ranking minority member—I know that Senator Harkin has been unavoidably detained. He will be here in a few moments.

Would anybody else like to make a comment speaking for the Democrats, Senator Kohl?

OPENING REMARKS OF SENATOR HERB KOHL

Senator KOHL. No; I'm just very happy to be with you here, Senator Specter.

I was pleased to hear you talk about the Education Department last night on "Larry King Live", and he said it there just as he said it now. He is dedicated to education in our country and dedicated to preservation of the Education Department.

And I am happy to be here today to question Secretary Riley.

Senator SPECTER. Thank you very much, Senator Kohl.

Senator Gregg, comment?

Senator GREGG. No; I want to hear from the Secretary.

Senator SPECTER. Senator Jeffords.

OPENING REMARKS OF SENATOR JAMES M. JEFFORDS

Senator JEFFORDS. I look forward to hearing from the Secretary also. I just want to say that I agree with your projections for what education spending, I believe, must be, as we go toward a balanced budget.

To me, there are two ways we are going to reach the balanced budget. One is getting health care costs under control. And the second one is improving our education in this Nation so that we can improve our revenues through productivity and decrease our social costs.

So I would hope, as we go forward, we keep that in mind and that we don't mindlessly cut programs that, in effect, will be counterproductive to our efforts.

Senator SPECTER. Thank you.

Mr. Secretary, the floor is yours.

SUMMARY STATEMENT OF SECRETARY RICHARD W. RILEY

Secretary RILEY. Yes.

Senator SPECTER. Your entire statement will be made a part of the record. And as you know, we like summaries, leaving the maximum amount of time for questions and answers.

Secretary RILEY. Thank you, Mr. Chairman. My statement has been submitted, I think with some charts and so forth attached to them.

Marshall Smith, Mike Smith my Under Secretary is here with me and Sally Christensen, Deputy Assistant Secretary for Budget.

It is a pleasure for me to be here with the subcommittee and present our role in terms of improving America's education and our budget.

As the committee reviews this budget, I want to place what we do in a larger context by telling you that it is my strong belief that American education is really beginning to turn the corner in many ways.

Just over a decade ago, Dr. Terrel Bell, then U.S. Secretary of Education, released "A Nation at Risk," a report which sounded the alarm that American education was sliding toward mediocrity. Today, we are starting to see the positive results for all of our efforts since then to improve education.

Student performance in science and math is on the rise. You can see that on charts 2 and 3 that are attached to your statement package. The number of high school students taking core academic courses has tripled since 1983. That is a very, very important statistic in terms of increasing higher academic standards.

Now, we have an awful lot of remaining problems that we all know about and hear a lot about. We certainly have to raise standards for academics, standards for safety and discipline and find new ways to connect parents to the learning process.

But overall, we are turning the corner, and I think we are moving in the right direction.

I believe the American people have a clear view of the future. Investing in education and getting the deficit in check are two of the most important ways that we can secure the Nation's future economic prosperity and reduce disturbing social costs.

But we must deal with both of these potential deficits, budget deficits and human investment, which affect future human deficit.

We know, for example, that about 44 percent of all of the people on welfare are high school dropouts. And 82 percent of all of the people in this Nation's prisons and jails are also high school dropouts.

And that should begin to tell us something that, certainly, we need to invest in education and not de-prioritize education.

FISCAL YEAR 1995 HOUSE-PASSED RESCISSIONS

Mr. Chairman, before I speak directly to the President's 1996 budget request, I would like to express my deep concern about the vote in the House today to rescind $1.7 billion in 1995 funds for Federal education programs.

I am concerned that the House, in its haste to get things done, is beginning to get caught up in some short-term thinking.

To my mind, a decision to eliminate our Safe and Drug-Free Schools Program is out of touch with the message that parents tell us again and again: "Get the guns out of school. End the violence. Keep drugs away from the children."

Mr. Chairman, there is not a lot of hope out there for many of our young people. Programs like title I, bilingual education, Eisenhower professional development, the TRIO programs, give these young people hope.

By cutting these programs, the Congress will be sending exactly the wrong message to the many students who are trying to buck the odds and avoid the culture of the street.

I must also tell you that the proposal to eliminate over 75 percent of our funding for our new technology initiatives and 100 percent of the already established Star Schools Program, does not have the future of our children in mind.

Finally, I want to suggest that it is counterproductive to cut away at Goals 2000 funding that has already been committed when 45 States have signed up to participate in this initiative to raise academic standards and improvement in our schools.

In 1994, the then Secretary of Education in Pennsylvania wrote to us that the: "Response to Goals 2000 in Pennsylvania has been overwhelming. More than 180 proposals have come in to participate in the program."

And he was requesting more funding. This is a good program that will work if we give it a chance. So I urge the committee to anchor in to the idea of excellence and high standards.

DEPARTMENT OF EDUCATION TRANSFORMATION SAVINGS

Now, I would like to speak to how we are radically transforming the Department of Education to save more than $16 billion.

I want to suggest to the committee to recognize that the proposals we are putting forward can improve education and, at the same time, save us money.

We have been aggressive in streamlining our services, reducing regulations, consolidating and terminating programs and lowering the student default rate from a high of 22 percent down to a current 15 percent, which is saving taxpayers around $1 billion a year just from that reduced amount of defaults.

In addition, loan collections rose from $1 billion in 1993 to $1.5 billion in 1994.

We have proposed the elimination of 34 programs in last year's budget. And we propose to terminate or phase out funding for 41 programs, saving nearly $750 million in our 1996 budget.

Altogether, we have enacted proposed legislation or made policy changes which would save $16.7 billion between 1995 and 2000. Between 1995 and 2000, we will save $12 billion through student loan reform and direct loans.

REGULATORY PROCEDURE REFORMS

We have also radically changed our approach to regulation. We now ask some very basic questions when it comes to regulatory practices. Whether to regulate at all is the first question; and then how to regulate to give our customers the maximum flexibility they need and the taxpayers the accountability that they need.

And I would like for you to look at chart 7, which is on that subject, which states our principles that we have developed and that we follow in terms of regulations.

Goals 2000: Educate America Act is a model of our new thinking. There are no regulations for this act at all. And the application form is only four pages long.

Goals 2000 is what I refer to as a responsible block grant with accountability, the very type of creative legislation that supports local schools improving their own way.

We now have minimal regulations for the very big title I program, and no regulations for our school-to-work initiatives. Oregon has become the first State to get a broad waiver under the new ed-flex plan.

In addition, we have gone a step further by beginning a thorough Departmentwide review of all of our regulations to sort out which ones are needed and which ones we can do without.

DEPARTMENTAL STAFFING AND MANAGEMENT

I believe we are also becoming more efficient. Our current ceiling of about 5,100 FTE is a significant reduction from the 7,700 FTE in 1979 employed by similar offices within HEW and six other agencies.

That is why I am hard pressed to see the savings in proposals currently being floated to make the Department an office in hopes that money will be saved.

I want to stress that just 2 cents of every Federal education dollar goes to administration costs. I would like to suggest, then, that we represent a world of change—we work at it every day—change from the way that the Department has been managed in the past.

I urge the committee to support our efforts in putting effective reforms in place and then making them stick.

FISCAL YEAR 1996 BUDGET REQUEST

Let me now turn to the budget request for 1996. We are requesting $24 billion in discretionary budget authority for the Department of Education, an increase of $878 million, or 3.8 percent, over the revised 1995 level of $23.2 billion.

Mandatory spending would decline from $8.6 billion in 1995 to $6.3 billion in 1996. And as a result, our total proposed budget is $30.4 billion, a decrease of $1.4 billion or 4.4 percent from the revised 1995 level of $31.8 billion.

This is a real decrease, but it is primarily due to interest rates going down, which impacts the mandatory spending estimates significantly.

PROGRAM TERMINATION AND CONSOLIDATION PROPOSALS

Within this total, we have made hard choices, choices that will terminate or consolidate almost 70, or 30 percent, of the programs; 70 programs to be terminated or consolidated of the 240 programs that we currently administer, which is far too many.

GOALS 2000—EDUCATION REFORM FUNDS

As I mentioned earlier, 45 States and hundreds of local communities are developing their own education reform plans under Goals 2000 and are counting on their 1995–96 allocations to implement their efforts.

We are asking, therefore, for $750 million for Goals 2000 in 1996, an increase of $347 million, to help States and communities raise standards, increase accountability, improve discipline, and increase parent involvement.

PROGRAMS SUPPORTING IMPROVEMENT AND INNOVATION

We also are requesting important increases for the major improvement initiatives included in last year's reauthorization of the Elementary and Secondary Education Act.

Most of these funds are targeted in three priorities: No. 1, title I to help low-achieving children, particularly those in high-poverty areas, to meet standards expected of all children; No. 2, an increase of $415 million to improve teaching through the Eisenhower Professional Development Program; and No. 3, $500 million for the Safe and Drug-Free Schools Program.

Drug use is on the rise among young people, for the third year in a row. This is certainly no time, we submit, to cut back on this essential program.

Our budget also provides increases in three other areas that support effective innovation in schools across the country. It expands technology in education, charter school efforts, and improves research, statistics and assessment.

SPECIAL EDUCATION REQUEST

In addition, our budget helps States and schools provide a free, appropriate public education for children with disabilities by including $3.3 billion for special education programs.

IMMIGRANT, VOCATIONAL AND ADULT EDUCATION REQUESTS

We will also seek to double the funding for the Immigrant Education Program to $100 million.

Improvements in school-to-work, vocational education, and adult education are critical to help students of all ages navigate today's changing job market.

For the School-to-Work Opportunities Program, we are requesting $200 million, an increase of $75 million over 1995. We are proposing a restructuring of the Perkins Act where we would consolidate 12 vocational education programs into two broader, more flexible authorities funded at $1.2 billion.

The budget also provides nearly $500 million for a consolidation of adult education and family literacy programs from eight categorical programs into a single grant to States and a small authority for national activities.

VOCATIONAL REHABILITATION STATE GRANTS

The President's budget also includes a $64.7 million increase in vocational rehabilitation State grants, for a total of $2.1 billion. These grants go a long way to helping 1 million individuals with disabilities obtain gainful employment.

POSTSECONDARY EDUCATION

Regarding postsecondary education, the President's 1996 budget will help provide 8 million students with access to post secondary education and training. Our experience with the direct loan program has been even better than we expected.

Students and schools have been very pleased with how the program has developed. That is why we are now proposing to extend the benefits of direct loans to all students and schools on a more rapid timetable.

Senator SPECTER. Mr. Secretary, I regret the necessity to interrupt you, because we have just about 4 minutes left on a vote. So we are going to have to go. And we will return just as soon as we can to move forward.

Secretary RILEY. All right, sir.

[A brief recess was taken.]

Senator HARKIN [presiding]. The subcommittee will resume its sitting at the instructions of Senator Specter, whom I just met on the elevator. I have already voted. He is on his way over to vote. He will be right back.

But he said, if it was all right with you, Mr. Secretary, in the interest of time and to try to accommodate your schedule, if you want to go ahead and finish your opening statement, we would be more than happy to finish that now.

Secretary RILEY. Thank you so much, Senator.

I was getting into the last section of my statement which deals with postsecondary education. And I pointed out that some 8 million students would be impacted, having access to postsecondary education and training through programs that we are involved with.

EXPANSION PROPOSAL FOR DIRECT STUDENT LOANS

Our experience with the Direct Loan Program has been excellent, better than we expected. And that is why we are now proposing to extend the benefits of direct loans to all students and schools on a more rapid timetable.

Under our proposal, direct loans would expand to 80 percent of loan volume by the 1996–97 academic year, and 100 percent of loan volume by 1997–98.

SAVINGS UNDER DIRECT LOANS PROPOSAL

This would allow all borrowers to enjoy faster loan processing and long-term repayment options. Combined with $6.8 billion that the Student Loan Reform Act is already saving, our proposal would save taxpayers a total of $12 billion by the year 2000.

The President's budget also raises the maximum Pell grant to $2,620 from $2,340, strengthening this very important lifeline to postsecondary education and training to millions of poor and working American families.

Here, I want to point out that the need to think long-term is so important. In my written statement, I noted that the full force of the baby boom echo is about to hit our Nation's classrooms, some 7 million more young people in the next 10 years. And many of them will be teenagers.

So we are going to have our hands full as a nation, first, in raising standards so these young people can do college work and get high-skilled jobs; second, in keeping them out of harm's way and away from guns and drugs and violence; and, third, making sure we help middle-class families to finance their children's college education, or some form of postsecondary education.

DEPARTMENT DRUG BOOKLET FOR PARENTS

And I want to point out—and I think we have them at the desks, Senator—booklets that would show how we are attempting to be involved with a customer-based kind of operation.

This is a pamphlet which deals with parental advice and counsel to help them advise their young people going to college. This is a student guide for students, and this is a parent's guide to prevention in terms of drugs.

I think those are at everyone's desks. And I hope they take a look at them.

BALANCE BETWEEN INVESTMENT AND SAVINGS

Finally, in conclusion, I believe that our 1996 budget strikes exactly the right balance between cost cutting and investing in education.

The American people have made improving education a national priority. Last week, the Wall Street Journal and NBC released a poll that showed 79 percent of all Americans are opposed to any cuts in the Education Department's programs.

PREPARED STATEMENT

I urge the committee then to think long-term and to see this budget as an opportunity to reflect the concerns of the American people that we invest wisely in their children's future.

I thank you very much for this opportunity to present our request and would be happy to respond to questions.

[The statement follows:]

STATEMENT OF HON. RICHARD W. RILEY

INTRODUCTION

Mr. Chairman, I welcome the opportunity to come before this Committee to explain the 1996 budget and the many reforms that we are undertaking to transform this agency into a Department of Education for the new Information Age we are now entering.

I believe that in today's global economy education has to be seen as a national priority. The knowledge and skills individuals learn in school to a large extent determine their level of economic success.

In 1992, for example, the average annual earnings for those with a bachelor's degree were 74 percent higher than those with a high school diploma, and 155 percent higher than those who had not graduated from high school (Chart 1).

TURNING THE CORNER: POSITIVE NEW TRENDS

This is why I want to place what we are trying to achieve in a larger context by telling you that it is my strong belief that American education is starting to turn the corner.

Just over a decade ago, Dr. Terrel Bell, then the U.S. Secretary of Education, released "A Nation At Risk," the report which sounded the alarm that American education was sliding toward mediocrity. Today, we are starting to see the positive results for our efforts since then to improve education.

Student performance in science and math is on the rise (Charts 2 and 3), and we have made up much of the ground we lost in the 1970s and 1980s. The number of high school students taking the core academic courses has tripled since 1983, and is still rising (Chart 4). Many more students, particularly minority students, are participating in the advanced placement process (Chart 5).

The dropout rate has declined in the last decade, and young people are getting the message that graduating from high school is only the stepping stone for more learning. There is a new seriousness and appreciation for the value of education. As a result, community colleges are filling up as never before. And our great institutions of higher learning continue to produce world class graduates.

I will be the first person to tell you that we still have many problems. Overall achievement is still too low; violence remains a destructive force in some of our schools; the gap between the performance of poor children and other children is still too large; and too many college freshmen are in remedial classes.

But overall, we are turning the corner and moving in the right direction. The American people are increasingly determined that their children get a first-class education. They want results.

STATEMENT ON PROPOSED RESCISSIONS

This is why I want to express my deep concern about the vote in the House to rescind $1.7 billion in 1995 funds for the Department's programs. I am concerned that the House of Representatives is already caught up in some short-term thinking.

To my mind, the decision to eliminate every single dollar for the Safe and Drug Free Schools program is out-of-touch with the American people, who are more concerned about violence and crime than anything else.

Juvenile crime is soaring, people are worried sick about their children's safety, and we hear the same message again and again—get the guns out school, stop the violence, and keep drugs away from their children. Yet, the House of Representatives has chosen to rescind the very program we have put in place to respond directly to this concern.

Several weeks ago, I visited a school in Seattle, Washington. A good school full of smart, young people—Garfield High School—a school with 22 national merit scholars. Yet, even this school—a school not known for trouble or in a bad neighborhood—was confronted with gunshots in the hallway a few weeks before my visit. The boy who held the gun said, "I have nothing to lose."

Mr. Chairman, there is not a lot of hope out there for many of our young people, and the proposed House cuts go right at those programs that give people some hope that they have a chance—programs like Title I, the TRIO programs, Tech-Prep Education, Bilingual Education, and Education for Homeless Children and Youth.

By cutting these programs, the Congress would send exactly the wrong message to the many students who are trying to buck the odds, avoid the culture of the street, and play by the rules.

I must also tell you that I believe the decision by the House to eliminate over 75 percent of funding for new technology initiatives is a good example of eating your seed corn. We cannot educate our young people if we are not teaching them how to use technology.

This is where the "future" is for many Americans, and the American people have very high expectations about making sure their children get access to new technology. They recognize that technology is central to getting American education into the 21st century.

Yet, the House would cut from our budget the very seed money for this effort. Rural states are also hard hit by the proposed elimination of the already established Star Schools program.

I want to suggest that it is counter-productive to cut away at Goals 2000 funding that has already been committed when 45 States have just signed up to participate in this new initiative to raise standards.

We have spent a decade working to get American education back on track—to stop accepting mediocrity—to make high standards and excellence the core center for American education. Now, just as we are starting to turn the corner, the House seems to be going backwards. So I want to urge the Committee to "anchor in" to the idea of excellence and high standards, and not to throw away a decade of common bipartisan effort to improve education.

HOW WE ARE RADICALLY TRANSFORMING THIS DEPARTMENT TO SAVE MORE THAN $16 BILLION

I recognize the need to "put our house in order" and to lower the federal deficit. But I do not think it is very smart to think that if you cut education today that you're cutting the deficit in the future. This is a case of being penny-wise and pound-foolish.

We have been aggressive in streamlining our services, reducing regulation, consolidating programs, terminating programs and lowering the student loan default rate—from 22 percent in 1990 to 15 percent in 1992, which is saving taxpayers $1 billion a year. In addition, loan collections rose from $1 billion in 1993 to $1.5 billion in 1994 (Chart 6).

This is why I want to urge the Committee to work with us to make changes in how the Department functions that will both improve education and save money. It can be done.

We proposed the elimination of 34 programs in last year's budget, and for 1996 we are proposing to terminate or phase out funding for 41 programs, saving nearly $750 million. All together, we have enacted or proposed legislation or made policy changes which would save $16.7 billion between fiscal year 1995 and fiscal year 2000:

- $12 billion in savings through student loan reform and direct loans.
- The elimination of 59 education programs and consolidation of 27 others for a savings of $4.6 billion.
- $100 million in savings by reducing our personnel from 5,131 to 4,698 FTE.

I want to stress that only 2 cents of every Federal education dollar goes to administrative costs, and we are working hard to reduce these costs even further.

A NEW FLEXIBLE REGULATORY PHILOSOPHY

We have also radically changed our approach to regulations. Broad waiver provisions, whole-school approaches, fewer regulations, charter schools, and investing in teams of teachers, parents, and school and community leaders to find high-quality solutions are all elements of our new flexibility.

In my opinion, the Goals 2000: Educate America Act is a model of our new thinking. There are no regulations for this new legislation, and the application form is only four pages long. Equally important, we have not created any new administrative structures to manage Goals 2000.

Goals 2000 is what I like to call a "responsible block grant"—the very type of creative, flexible legislation that supports local schools districts to achieve reform in their own way. Goals 2000 helps States and school districts set their own high standards and design their own programs for reaching them.

In the second year of each grant, 90 percent of all funding flows directly to local school districts. Yet, Goals 2000 still holds us accountable for results, and we need to be held accountable if we are spending the taxpayers money. As of today, 45 states are participating in the program.

The School-to-Work Opportunities Act also represents a radical departure from traditional Federal and State roles. This regulation-free program provides Federal seed money over a five-year period to get school-to-work systems up and running in every State, and then the program sunsets.

Another example of our new flexible regulatory approach was demonstrated in last year's reauthorization of the Elementary and Secondary Education Act (ESEA). In totally revamping Title I, we promoted new approaches that enable staff in individual schools to decide on the best strategies for improving teaching and learning.

In addition, Goals 2000 allows me to give six states the power to waive the statutory and regulatory requirements of the Elementary and Secondary Education Act and the Perkins Vocational Education Act without having to seek my approval. Oregon, for example, has already put this "Ed-Flex" plan into place.

We have a new management goal of eliminating 25 percent of grant regulations for fiscal year 1996 and an additional 25 percent for 1997. We are making good progress.

We now have minimal regulations for the Title I program, no regulations for our School-to-Work initiative, and a broad new waiver authority that I fully intend to use.

And, we have gone a step further by beginning a thorough Department-wide review of all of our regulations to see if they are really necessary. You will see at the end of this testimony a one page attachment that spells out the principles of this new flexible regulatory policy (Chart 7).

I would like to suggest, then, to the Committee that we represent change—significant change—from the way this Department has been managed in the past. We have been doing business differently.

I will do all I can to work with the Committee to make the Department of Education more effective. I am not wedded to the past, and we shouldn't feel compelled to hold on to 1960s thinking just because it is the way we have done business if the programs aren't working for the children.

I didn't come to Washington to save the job of a bureaucrat but to shake up the status quo, to put in place all of the many lessons we have learned in the last decade about how to improve education, and not to de-emphasize education in America.

We can always do a better job, and I am open to any good, positive suggestions by Committee members to find real savings. But I want to urge this Committee to give us the time to put these reforms in place and make them stick.

We need to be bipartisan and high-minded, to think long-term, something that the American people expect of us when it comes to educating their children. We are not educating their children as Republicans, Democrats, or Independents, but as Americans who are the future of our country.

THE 1996 BUDGET REQUEST

Let me now turn to our budget for 1996, which demonstrates that President Clinton is committed to making education a national priority. It reflects an appropriate Federal investment in our Nation's human resources; and at the same time it continues our efforts to keep the deficit under control and to streamline our operations so that we can do more with less.

We are requesting $24.0 billion in discretionary budget authority for the Department of Education, an increase of $878 million, or 3.8 percent, over the revised 1995 level of $23.2 billion. Mandatory spending would decline from $8.6 billion in 1995 to $6.3 billion in 1996, primarily because of lower interest costs in the student loan programs. As a result, our total proposed budget is $30.4 billion, a decrease of $1.4 billion or 4.4 percent from the revised 1995 level of $31.8 billion.

Within this total, we have made hard choices—choices that would terminate or consolidate almost 70, or 30 percent, of the 240 programs the Department currently administers. This not only will streamline the way we do business; it also will free up resources for higher priority efforts.

Over the past two years, we have worked with the Congress in a bipartisan fashion to develop an effective strategy—one that will raise educational standards for all of our young people and increase opportunities for postsecondary education and lifelong learning.

With the enactment of the Goals 2000: Educate America Act, the Improving America's Schools Act, the School-to-Work Opportunities Act, and the Student Loan Reform Act, this strategy is now in place, and we are getting strong support for our reform efforts at the state and local level.

HELPING ALL STUDENTS LEARN TO HIGH STANDARDS

As I mentioned earlier, 45 States and hundreds of local communities are developing their own education reform plans under Goals 2000, and are counting on their 1995 and 1996 allocations to implement their reform efforts.

To help maintain this momentum for local education reform and renewal, we are asking for $750 million in 1996, an increase of $347 million, to help States and communities raise standards, increase accountability, improve discipline, and increase parent involvement.

Goals 2000 is not just another Federal program; it is a "responsible block grant" that gives States and communities the critical leverage they need to make all education programs and resources—Federal, State, and local—more effective.

We also are requesting important increases for the major improvement initiatives included in last year's reauthorization of the Elementary and Secondary Education Act. Most of these funds are targeted to three priorities: First, our budget includes $7 billion for Title I to help low-achieving children, particularly those in high-poverty schools, meet the same challenging academic content and performance standards expected of all children.

In order to direct a larger share of Title I resources toward communities and schools with the highest concentrations of children from low-income families, we are proposing to distribute $1 billion of these funds through the new "Targeted Grants" formula. Combined with the amount allocated through the Concentration Grant formula, this proposal would deliver $1.6 billion to the poorest communities and schools, where the need is the greatest.

Second, the request provides $735 million for the Eisenhower Professional Development State Grants program to upgrade the qualifications of teachers in all the core academic subjects, an increase of $415 million over the 1995 level.

And third, we are asking for $500 million for the Safe and Drug-Free Schools program, an increase of $18 million, to help States and school districts develop comprehensive, locally based solutions to the problems of student drug use and violence in schools.

Our budget also provides support for reform and innovation in schools across the country in three other areas. The totals requested for these areas are:

- $83 million for Technology in Education would expand efforts to bring industry and education together in a collaborative effort to create technology-rich, high-performance learning environments for both children and adults;

- $20 million for Charter Schools would greatly increase support for parents, teachers, and community leaders seeking to create new schools and expand public school choice; and

- $193 million for Research, Statistics, and Assessment would help make available new research on teaching and learning, as well as improved information on student achievement in the core academic subject areas.

In addition, our budget helps States and schools provide a free, appropriate public education for children with disabilities by including $3.3 billion for Special Education programs.

This request would support a reauthorization proposal for the Individuals with Disabilities Education Act that would focus on improving outcomes for students with disabilities, and that would consolidate 14 categorical discretionary programs into 5 broader authorities.

The President's budget request also recognizes the extra burdens experienced by school districts enrolling large numbers of recently arrived immigrant students; we would double funding for the Immigrant Education program to $100 million.

PREPARING STUDENTS FOR WORK IN THE NEW INFORMATION AGE

For the School-to-Work Opportunities program, we are requesting $200 million, an increase of $75 million over 1995. Combined with an identical $200 million request at the Department of Labor, these funds will help 43 States to implement their school-to-work systems, which are now in the design phase.

We are very pleased with the success of the School-to-Work program, and believe that both the program itself—and the way it has been administered jointly by the Departments of Education and Labor—provide a model for effective reform of other Federal workforce training programs.

Our Vocational Education and Adult Education programs are critical components of the President's GI Bill for America's Workers. This initiative would consolidate 70 Federal job-search and training programs, give States and communities the flexibility to design their own job training programs, and empower workers to choose the combination of education, training, and job-search services they need to obtain good jobs.

We are proposing a restructuring of the Perkins Act that would consolidate 12 Vocational Education programs into two broader, more flexible authorities—funded at $1.2 billion—that would support State and local reforms begun under the School-to-Work Opportunities Act.

The budget also provides nearly $500 million for a consolidation of adult education and family literacy programs into two authorities: a single grant to States and a small authority for national activities.

As with our other reform proposals, these restructured programs would give States the flexibility to establish their own program objectives based on their own unique needs, and to use grant funds for a wide range of activities to achieve those objectives.

The President's budget also includes a $64.7 million increase for Vocational Rehabilitation State Grants, for a total of $2.1 billion. These grants support State efforts to provide a wide range of services that help one million individuals with disabilities obtain gainful employment.

IMPROVING ACCESS TO POSTSECONDARY EDUCATION

I now want to turn to what we are doing to make access to a higher education a reality for more working and middle-class Americans.

I want to begin by stating that the American middle class is what it is today because we have made access and the opportunity to higher education a national priority, ever since the creation of the GI Bill 50 years ago. This has been an enormously successful national enterprise.

In the last 20 years alone, to illustrate this point, 40 million Americans have gone to college on a Federal student loan. About 75 percent of all postsecondary student aid now comes from the Federal government.

The American people know the value of a higher education and they are more certain then ever about the need to get one. This is why our community colleges and our universities are filling up. But even as the demand increases, there are many new pressures being brought to bear on our Nation's higher education community.

Increasingly, State leaders see higher education as a budget item to be cut rather than a long-term investment. The Federal government, which for much of the 1980s was able to increase its funding for university-based research, is cutting back as well. And, all of us in Washington—in both the Executive and Legislative branches—have come close to over-regulating higher education.

I am concerned, then, that in the rush to cut budgets, we can do unintentional but very real damage to the jewel of the American educational system—our system of higher education—just as millions of American parents turn to us for help as a generation of young people come of age in the next five years.

So this is a very important time for the Congress to do some long-term thinking, not to get sucked into the pressure of the moment and cut back on programs that help us prepare and educate all of these young people. This is why maintaining access to higher education is such a central feature of the President's budget.

The President's 1996 budget would generate $39.4 billion in postsecondary education and training assistance to 8.2 million students. Most of this assistance is provided in the form of loans to students, both through the Guaranteed Student Loan program and the new Direct Student Loan program.

Our experience with the Direct Loan program thus far has been even better than expected. Students and schools have been pleased with the better service and reduced complexity of the Direct Loan program, and the estimated savings produced by direct lending are even higher than our earlier projections.

For these reasons, we are now proposing to extend the benefits of Direct Loans to all students and schools on a more rapid timetable. Under our proposal, Direct Loans would expand to 80 percent of loan volume by the 1996-97 academic year and to 100 percent of loan volume by 1997-1998.

This would allow all borrowers to enjoy faster loan processing and flexible, long-term repayment options, while taxpayers would save an additional $5.2 billion through the year 2000. Combined with the $6.8 billion that the Student Loan Reform Act is already saving, our proposal would save a total of $12 billion by the year 2000.

The Pell Grant program would be restructured as part of the GI Bill for America's Workers. Students enrolled in degree-granting programs would continue to receive Pell Grants, while students enrolled in non-degree programs who are now eligible for Pell Grants would receive new Skill Grants, which would be administered by the Department of Labor in partnership with States and communities.

For Pell Grant recipients, aid would rise to a total of $4.8 billion, an increase of $688 million over the comparable 1995 level, and the number of Pell Grant recipients would grow to 2.8 million, an increase of 147,000 over 1995.

REINVENTING THE DEPARTMENT

Before I close, let me return to a theme I mentioned earlier: how we are changing the way we do business here at the Department of Education. This isn't just a slogan; we are serious about making the hard decisions needed to help us do our job better.

This is why we are proposing to terminate or phase out funding for 41 programs, saving almost $750 million. We would eliminate another 27 programs by consolidating 39 categorical programs into 12 broader, more flexible authorities. These eliminations and consolidations will result in a substantial reduction in administrative burdens not only on the Department, but on States, localities, and colleges and schools.

This is one reason we are able to reduce overall staffing in the Department by a net of 71 employees, even as we add 150 new staff to manage the Direct Loan program. This means that in areas other than Direct Loans, staff will be reduced by 221 in 1996. We plan to reduce non-Direct Loan staff by another 386 employees by 1999.

We have tried to be responsible in eliminating programs that no longer work as they should. And, we continue to shift the emphasis in our program monitoring from compliance to performance—from a focus on narrow reporting and audit-type requirements to giving States and localities the flexibility they need to raise student performance.

As I mentioned earlier, we are streamlining the Department's grant-making function so that we can inform applicants earlier of funding decisions, distribute funds electronically, and eliminate unnecessary paperwork affecting 6,000 continuations a year.

CROWDED CLASSROOMS: 7 MILLION ADDITIONAL CHILDREN

As the Committee thinks ahead about the education priorities of this Nation, I want to stress that the so-called "baby boom echo" is now beginning to hit our Nation's classrooms in full force. In the next ten years, over 7 million additional children are going to get up in the morning to go to school.

It may interest Committee members to see how their own states are going to be impacted. Overall public school enrollment will increase 20 percent in Oregon by the year 2005, 29 percent in Nevada, 25 percent in Washington State, and 17 percent in Florida.

Here, I want to dig a little deeper and tell you that much of this increase will take place in our Nation's high schools. Oregon, for example, will see a 28 percent increase. We are projecting a 51 percent increase in the number of teenagers growing up in Nevada, a 41 percent increase for Washington State, a 36 percent increase for the State of Florida.

Even small States like New Hampshire and Vermont are going to feel new pressure to educate a lot more young people. We are projecting a 31 percent increase for New Hampshire and a 23 percent rise for Vermont by the year 2005. Pennsylvania and Wisconsin will have 17 percent increases, and the Missouri projections come in at 15 percent in terms of high school students.

That's a lot of teenagers. The vast majority of our young people are growing up in a responsible way, but crime experts are already sounding the alarm that the sheer number of young people coming into their teenage years at the same time will lead to rising homicides and other youth violence.

I get worried when I see a headline that reads, "Teen Bloodbath Looms." If we have any sense at all, we need to give all of these young people the hope of a good, first-class education based on high academic standards.

We are going to have our hands full as a Nation: first in raising standards so these young people can do college work and get high-skilled jobs; second, in helping them stay out of trouble, away from guns and drugs; and third, making sure we help middle- and low-income families finance their children's college education or some other form of postsecondary education.

This is why I urge the Committee to think long term and to tune into how the American people are thinking. I believe the American people have a clear view of the future—that the reduction of the deficit and investing in education are two of the most important and essential ways we can secure this Nation's future economic prosperity.

CONCLUSION

In conclusion, I believe the President's 1996 budget strikes exactly the right balance demanded by the American people. We are proposing to streamline and consolidate our programs and staff to help States, school districts, and postsecondary institutions to get on with the business of moving American education into the 21st century as rapidly as possible.

Investing in education is critical for our Nation's future, and this budget makes the strategic investments needed to secure that future for all of our citizens. It is a budget that makes a future preference, that invests for the long-term. This is where I believe the American people want to go.

I urge the Committee to see this budget process as an opportunity to create a bipartisan document that reflects the concern of so many Americans that we invest wisely in their children's future.

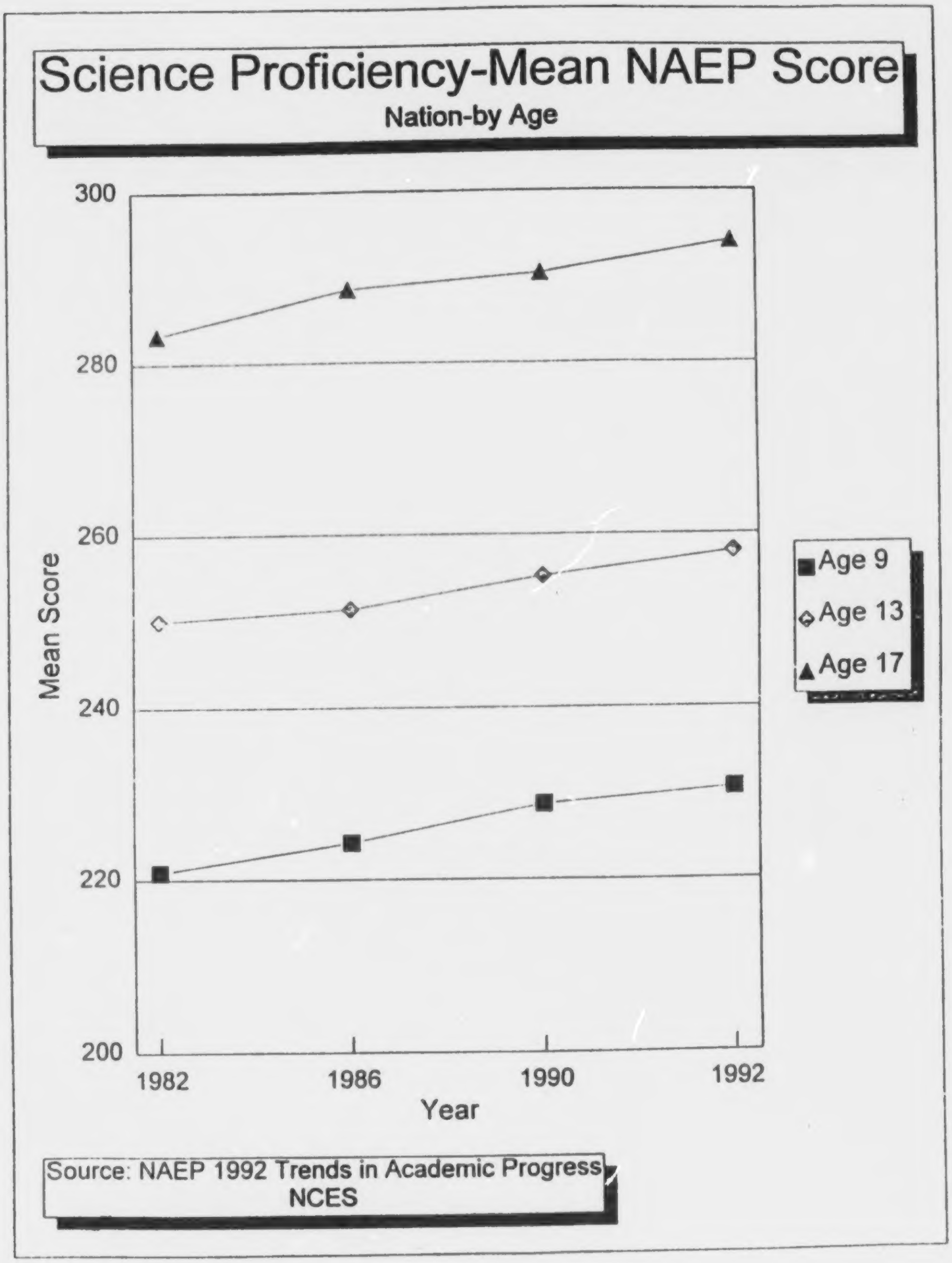
Thank you, and I will be happy to answer any questions you may have.

Chart 1.—Average annual earnings by level of education: 1992

Professional	$74,560
Doctorate	54,904
Master's	40,368
Bachelor's	32,629
Associate	24,398
Some college	19,666
High school graduate	18,737
Did not finish high school	12,809

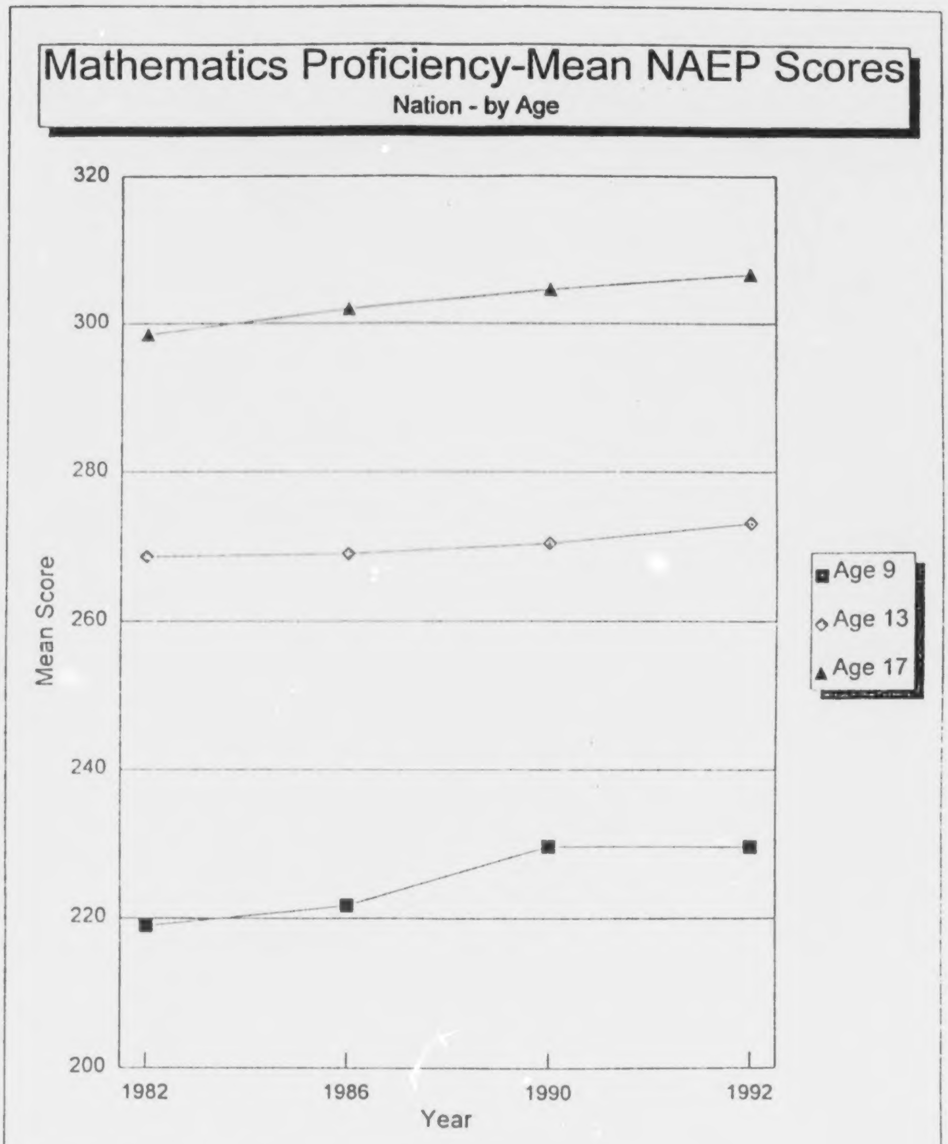
Source: U.S. Bureau of the Census (1994).

Chart 2



Source: NAEP 1992 Trends in Academic Progress
NCES

Chart 3



Source: NAEP 1992 Trends in Academic Progress
NCES

Chart 4.—Percent of high school graduates taking the number of courses recommended for all students by "A Nation at Risk," by Race/Ethnicity: 1982 and 1992 [1]

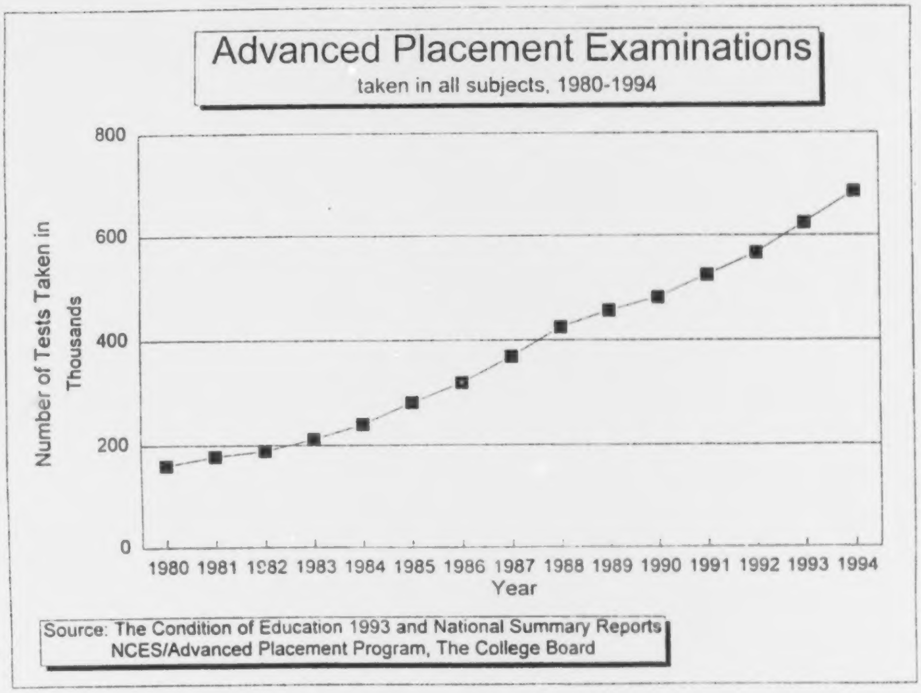
Race/ethnicity	*Percent*
All:	
1982	13
1992	47
White:	
1982	15
1992	49
Black:	
1982	10
1992	44
Hispanic:	
1982	6
1992	36
Asian:	
1982	21
1992	51

[1] Although "A Nation at Risk" included one-half a unit of computer science in its recommendations, it is not included in this analysis because very few students participated in computer science classes in 1982. Its inclusion in this measure would exaggerate the change in academic course taking since 1982.

Note: Courses include 4 units in English; 3 units in social studies; 3 units in science; and 3 units in math, where a unit represents a year-long course.

Source: U.S. Department of Education, National Center for Education Statistics, High School Transcript Study, 1987 and 1990 NAEP High School Transcript Studies, National Education Longitudinal Study Transcripts, 1992.

Chart 5



Source: The Condition of Education 1993 and National Summary Reports NCES/Advanced Placement Program, The College Board

CHART 6.—FFEL DEFAULT COSTS BY FISCAL YEAR—FISCAL YEAR 1996 BUDGET

[In billions of dollars]

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total defaults	1.0	1.3	1.3	1.4	1.9	2.4	3.6	2.7	2.6	2.4	2.5	2.5
Net collections	0.2	0.3	0.5	0.5	0.6	0.7	0.7	1.0	1.0	1.5	1.5	1.6
Net default costs	0.8	1.0	0.8	0.9	1.4	1.7	2.8	1.7	1.6	0.9	1.0	0.9

CHART 7.—DEPARTMENT OF EDUCATIONS PRINCIPLES FOR REGULATING

The Department of Education will regulate only when it improves the quality and equality of services to its customers-learners of all ages. ED will regulate only when absolutely necessary, and then in the most flexible, most equitable, and least burdensome way possible.

Whether to regulate

When essential to promote quality and equality of opportunity in education.

When a demonstrated problem exists and cannot be resolved without regulation.

When entities or situations to be regulated are so diverse that a uniform approach does more harm than good.

When necessary to provide legally binding interpretation to resolve ambiguity.

How to regulate

Regulate no more than necessary.

Minimize burden and promote multiple approaches to meeting statutory requirements.

Encourage federally-funded activities to be integrated with state and local reform activities.

Ensure that benefits justify costs of regulation.

Establish performance objectives rather than specify compliance behavior.

Encourage flexibility so institutional forces and incentives achieve desired results.

BIOGRAPHICAL SKETCH OF RICHARD W. RILEY

Position: U.S. Secretary of Education.

Birthplace and date: Greenville County, SC; January 2, 1933.

Education: Furman University, B.A., cum laude, 1954; University of South Carolina, J.D., 1959.

Experience: January 1993 to present; Secretary, U.S. Department of Education.

1985 to 1993: Senior partner, Law firm of Nelson, Mullins, Riley & Scarborough.

1990: Institute Fellow, John F. Kennedy School of Government, Harvard University.

1978 to 1985: Governor of South Carolina.

1967 to 1977: South Carolina State Senator.

1963 to 1967: South Carolina State Representative.

1960 to 1963: Attorney, family's law firm with offices in Greenville and Simpsonville, SC.

1959 to 1960: Legal counsel to the Judiciary Committee of the United States Senate.

1955 to 1957: Officer on a mine-sweeper, United States Navy.

Professional memberships: Member, National Assessment Governing Board; Member, Carnegie Foundation Task Force on Meeting the Needs of Young Children Board; and Member, Duke Endowment.

Honors and awards: South Carolina Education Association's Friend of Education Award, three-time recipient Government Responsibility Award, Martin Luther King, Jr. Center, 1983 Connie Award for special conservation achievement, National Wildlife Federation, 1981.

REMARKS OF SENATOR HARKIN

Senator HARKIN. Mr. Secretary, thank you. I apologize for being late. I thought that vote was going to be about 20 minutes ago and that I would just miss a couple of minutes, but they lingered for awhile. And I thought, well, I would vote and get over here.

But I have looked over your prepared testimony and appreciate your forthrightness and what you have done with the Department. I will take the occasion now to, at least, make my opening statement.

EDUCATION—AN INVESTMENT PROGRAM

And again, I thank you Mr. Secretary for appearing here today to discuss the 1996 budget. Education, I have always thought, if there is ever an investment program, it is education. That is an investment program.

And under your leadership, the Education Department continues to play an essential role in reforming our Nation's schools.

So again, you can count me down, Mr. Secretary, as one who believes that if we are going to be investing Federal moneys, if we are going to be spending Federal moneys, and if we will look upon it as investments in the future of this country, there is not a better place to invest than in education.

And you have been a great leader in that, and I, for one, appreciate your great leadership in that effort.

For 1996, the Department of Education is requesting a 3.8-percent increase for discretionary programs in our subcommittee; $9 billion included in that for Goals 2000, School-to-Work, GI Bill for America's workers, title I. I hope we can get 3.8 percent.

I think it ought to be more than that. But you know how I feel about that. But I just hope we can stick with the 3.8 percent.

The 1996 budget does take bold steps toward prioritizing and consolidating the numerous programs within its jurisdiction. And again, I want to commend you, Mr. Secretary, for your efforts to restructure and streamline government by reducing the number of programs administered by the Department by nearly 30 percent and for proposing to accelerate full implementation of the successful Federal direct loan program.

Again, I have heard nothing but just raves from Iowa State University in Iowa about how it is working at that college. So move ahead aggressively on that.

I do not know—I saw—what was the figure, about $12 billion, I think, total savings, am I not right, something that is close to that?

Secretary RILEY. That's right. Yes.

Senator HARKIN. So for the life of me, I cannot understand those who want to turn the clock back and get back into the indirect loan program and the guaranteed loans. I mean, if when we can save $12 billion and do a better job of it, it makes good common sense to me.

HOUSE-PASSED 1995 RESCISSIONS

I also want to express my serious reservations and criticisms of the House proposal to rescind $1.7 billion from our 1995 appropriation. That is $1.5 billion more than that proposed by the President. I think it would be devastating.

We all want to reduce the deficit. But I consider it unwise and unconscionable that our children are being asked to bear a disproportionate share of the burden of deficit reduction.

That just really completes my opening remarks, and I would yield to Mr. Kohl for any opening statements.

Senator KOHL. I have already made my statement.

Senator HARKIN. Oh, you have already made your statement then. Oh, you want to start asking questions.

Senator KOHL. Unless you do.

Senator HARKIN. Well, I—go ahead. Go ahead.

Senator KOHL. I do not think the Senator minds if we go ahead and start asking questions. I appreciate that.

Well, Mr. Secretary, if I might, then—let me get my light on there. [Laughter.]

Oh, for the days when I was chairman. [Laughter.]

When I could control the light. [Laughter.]

Mr. Secretary, I was extremely dismayed—I have to get the smile off of my face here. [Laughter.]

TITLE I BUDGET REQUEST

I was extremely dismayed to see your title I budget request. Did you know that Congress struggled to reach a fair and reasonable compromise regarding the title I formula?

According to the statute, only funds in excess of the 1995 appropriation level are to be used for targeted grants; yet your proposal would change the statutory distribution of title I by allocating $1 billion of the appropriation, entirely, through the new targeted grants formula, instead of just targeting the $299 million increase.

I believe, Mr. Secretary, that this flies in the face of congressional intent, and I must tell you forthrightly that I find it unacceptable.

In addition, a central element of the Senate bill was the addition of incentive payments for State effort in equity. My gosh, we debated long and hard on that issue, and I fought to have these elements retained in conference, and we were successful.

And I was extremely pleased that the conference report authorized $200 million for this in fiscal year 1996 through the education incentive grants.

Yet this second formula is ignored in this budget request. State effort and equalization of funding are crucial to ensuring equal access to a high quality education for all students.

As Federal policymakers, we cannot overrule States and local school districts on financing for education. I know that. But we can provide incentives in Federal education programs for States with good records of equity and effort and encourage other States to follow that.

TITLE I DISTRIBUTION AND EQUITY FORMULAS

So if you would, Mr. Secretary, just talk a little bit about the administration's decision to change the distribution of title I grants and how you view the effort in equity formula that we had included in the conference report.

Secretary RILEY. Well, Senator, you know, I appreciate the question. And I appreciate your position. I mean, as you know, it always is a very difficult issue dealing with the formulas for distributing title I funds.

I don't think there is any question that we have a clear policy. I have been forthright about it and have stated it in very clear terms, that is, to target funds to the very poorest children in the very poorest areas.

I know there are poor children in all areas and you have all kinds of other considerations, but we are putting the $300 million increase and also shifting other funds to make $1 billion to target very high-poverty areas with concentrations of poor children. It is consistent with our policy.

And I, as I go from House to Senate and member to member, I get very compelling arguments for all of the positions. But I do think that we have been forthright in saying we want to do everything we can to try to target funds to the very poor schools with concentrations of poor children.

Senator HARKIN. Well, I appreciate that, Mr. Secretary, but we debated that long and hard up here in our committee, and then later on in the—not only in the authorizing committee, but later on in appropriations.

And as I said, it went to conference. We debated it in conference. And the conferees reached an agreement. And I do not see that agreement being adhered to.

Now, I know that the Department wants to carry out policy, and I appreciate that. But we also have something to say about that here on the Hill. And quite frankly, the State effort and equalization of funding are crucial, I think.

And nothing is being done on that. It is all being targeted. Again, we debated that, and we came, I think, to an agreement here. Both sides were there at the table, both Republicans and Democrats, House and Senate.

And yet, I do not see that the Department is following the clear intent of Congress and how we wanted these funds to be allocated. Again, I understand that you have a policy. But it seems to me that we still have the power of the purse string up here.

Secretary RILEY. Senator, I am glad they have got the red light on right now. [Laughter.]

And I call your attention to the light. I don't know if—I think that is my best answer right now. [Laughter.]

And again, the course of Congress can reaffirm that position, and that would certainly resolve that. I do think it is very important for us to make it very clear what we think is best for the country and to state those policies in clear terms. That is what I have tried to do.

Senator HARKIN. I appreciate that Mr. Secretary.

Secretary RILEY. Thank you.

Senator HARKIN. Welcome back, Mr. Chairman. I have used up my time as you can see.

Senator SPECTER [presiding]. Well, thank you Senator Harkin.

When I left to go to vote, you were in the middle of your statement. Have you completed your statement?

Secretary RILEY. Yes, sir; Thank you.

THE NEED FOR A DEPARTMENT OF EDUCATION

Senator SPECTER. I bumped into Senator Harkin in the elevator and suggested he proceed.

Mr. Secretary, I begin with the question of the utility of the Department of Education. Do you think that it should be retained or abolished?

Secretary RILEY. Well, that is a very legitimate inquiry at this time because, certainly, the statement has been made by others that they think it should be abolished.

And I have analyzed that in many ways. As I have said to others, Mr. Chairman, I did not come up here to try to protect the bureaucracy. And I do not mind analyzing it. And I think with the interest in Government itself that is out there, and the deficits and all of the problems, certainly, everything needs to be looked at.

Senator SPECTER. What is the answer, Mr. Secretary?

Secretary RILEY. The answer is that after analyzing it in every possible way, I do not see how, in any way in the world it would do anything but be harmful to American children to eliminate the Department of Education.

Education is the most important factor out there in this information and education era. And to deemphasize education and to shift the responsibilities—I do not think people realize really what we do. And that is why I talked about that a lot in my statement. The fact is that about one-half of our——

Senator SPECTER. Mr. Secretary, let me just get your answer. You do not want to abolish the Department.

Secretary RILEY. No, sir.

IMPORTANT FUNCTIONS OF THE DEPARTMENT

Senator SPECTER. OK. And now, the next question is: What are the most important functions of the Department that warrant its retention?

See if you can give it to me in a bullet form like sound bytes when we are asked about it.

Secretary RILEY. Yes; OK, the most important is that it is a national voice for education. It is a statement of a national priority for this country that we have a——

Senator SPECTER. It is a leadership role for the Federal Government in establishing priorities such as, No. 1?

Secretary RILEY. Such as, of course, having a member of the Cabinet who faces the President and the Vice President on every major decision. And then it is an expression for everything in this country is a national statement in terms of——

Senator SPECTER. Give me an illustration of something you have done as Secretary of Education in that Cabinet room that makes it important to have an education advocate there.

GOALS 2000—IMPACT ON STATES

Secretary RILEY. Well, I have spoken about education, I think, Senator, in every Cabinet meeting we have had; Goals 2000, the emphasis on academic standards, on making sure that the authority is with the States and local in terms of control.

Senator SPECTER. All right. But now, as to Goals 2000, those are recommendations only. The States, anyone is free to disregard them, right?

Secretary RILEY. A State does not have to participate in Goals 2000 unless they wish to. That is right. But if they participate, then they develop their own methods of reaching for the goals. Yes; they have control of what they are going to do to reach the goals.

Senator SPECTER. All right. Now——

Secretary RILEY. They do have to have State standards, as you know, and State assessment.

Senator SPECTER. OK. Taking Goals 2000, you referred to a letter that you got from Pennsylvania. Did you just pick that——

Secretary RILEY. Yes.

Senator SPECTER [continuing]. At random from among the 50 States?

Secretary RILEY. Just picked it at random. [Laughter.]

It just happened to be at the top of the stack. [Laughter.]

Senator SPECTER. But you had letters from—have the goals articulated by the Federal Government in Goals 2000 been widely recognized as useful goals for education in America?

Secretary RILEY. Yes, sir.

Senator SPECTER. Which goals?

Secretary RILEY. Well, I think all of the goals deal with different aspects of education. And certainly, Goal No. 3, which deals with academic standards in core subjects, is the one that is causing the most energy, certainly, out there. All of the States are identifying the standards in the various subjects.

But all of the goals are causing a lot of attention. Discipline, safety, drug-free, parent involvement, all of those issues are having significant involvement.

Senator SPECTER. Now, has any other standard been proposed on the drug-free issue besides the one in Goals 2000?

Secretary RILEY. It is the broad standard that all schools should be drug-free, safe, and disciplined. And I think that is a general standard that is in this national problem.

Senator SPECTER. But my question is: Do you need the Department of Education to articulate that standard, or has that standard not been articulated somewhere else?

Secretary RILEY. Well, for a national standard, this is the place for it to be articulated, and the Department of Education is the unit to do it if it is a national standard.

Senator SPECTER. And has that standard, the articulation of that standard by the Department of Education, had a beneficial effect nationally?

Secretary RILEY. Yes, sir; in no unquestioned terms, in my judgment. For example, the parent involvement part of it, we now have 125 major national organizations that are part of the parent involvement initiative.

And that strictly came out of our office trying to get people in this Nation attuned to the importance of parent involvement.

Senator SPECTER. Well, my time is up. I think, in order of arrival, it is Senator Kohl.

Senator KOHL. Thank you very much, Mr. Chairman. And Secretary Riley, it is great to see you. You are a tireless advocate for education of America's young people. And I always admire what you do. I think you do it outstandingly well.

Secretary RILEY. I thank you, sir.

SCAN FISCAL YEAR 1995 RESCISSION PROPOSAL

Senator KOHL. I would like to ask about a few particular programs, Mr. Riley.

The first one is the SCAN Program which, as you know, is the Student Counseling and Assistance Network, which is a program that would make available widely, through a computer data base, information about all existing public and private sources of funding for higher education. But such a data base is not presently available in our country as surprising as it may be.

And as such, I think it is a really important thing if we can get it off of the ground, up and running. But I see that continued funding for the data base has not been requested. And furthermore, the House is about to rescind the $500,000 that was appropriated in its first year, which was fiscal year 1995.

My question is, Mr. Riley: What are we going to do about SCAN or about seeing to it that all of our young people in America are familiar and have available to them the sources of funding for higher education?

Secretary RILEY. Well, Senator, it is the second year that really is involved in the rescission. The first year, of course, is phase 1 of this study and is underway.

We were directed to conduct a feasibility and design study concerning the creation of this process. We expect to have phase 1 ready to show you on April 1 of this year.

And then, of course, we would be moving on into the phase 2. However, it is a part of the rescission that we are now talking about.

We think it is very important. We agree with you on it. It is—as I say, it is underway. And we will have some very good information April 1. And we would like to go on into phase 2 and have it completed.

DROPOUT PREVENTION DEMONSTRATION RESCISSION PROPOSAL

Senator KOHL. All right. I would like to ask you about dropout prevention programs, Mr. Secretary. One of the targets set in Goals 2000 legislation was increased high school graduation rates.

And yet the Department has proposed no new funding for the Dropout Prevention Assistance Program. And in fact, it has requested that the fiscal year 1995 appropriation of $28 million be rescinded in and of itself.

Now, that dropout prevention program, which is operated, among other places in Milwaukee, is really very good. And I believe it works. Inasmuch as dropout prevention is so important to us, it is so important to you, how is it that we are about to let that program go?

Secretary RILEY. Well, I think the program really was only intended to be a short-term demonstration to test and evaluate successful strategies to combat the problem, and not intended to be a long-term program. Fiscal 1994 funds are supporting a final and planned year of 3- and 4-year projects. They are undergoing rigorous evaluation to test and demonstrate strategies that school districts can use to combat the problem. And that is, kind of, how it was intended to be.

Senator KOHL. All right. Well, thank you.

Secretary RILEY. All of our programs, of course, Senator, deal with this dropout issue, including Goals 2000, safe and drug-free schools, school-to-work, and the combination of title I and all of the other programs.

All of those programs deal with this issue. But this was really a short-term demonstration, and we think it is going to have some lasting effect though, as a demonstration.

Senator KOHL. There are, are there not, intentions to keep that program alive, or are you not prepared to say right now?

Secretary RILEY. No; I do not think so.

IMPACT OF DROPOUT PREVENTION DEMONSTRATIONS

Mr. SMITH. Senator, if I may respond a little bit more. The program is being proposed for termination as you indicated. There was a rigorous evaluation conducted on it.

And the information from our evaluations was used in the reauthorization of, particularly of title I, but of a number of other ESEA programs. And the Congress put into place a number of changes in title I that reflected the information that came from evaluation.

So the program itself had a great deal of effect, not only in places where it, in fact, was placed in high schools, but on the entire Nation.

And now, every title I school over 75 percent—every title I high school over 75 percent can do the things which were learned from those evaluations.

So I think you can say that it had a terrific effect all around the Nation.

Senator KOHL. Good. I thank you.

Secretary RILEY. Thank you, sir.

Senator KOHL. I thank you, Secretary Riley. Regards from Ken Snyder.

Senator SPECTER. Senator Bond.

REMARKS OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Mr. Chairman and Mr. Secretary. It is always good to see a former colleague again. I am going to be very brief because I ought to show up for the vote.

But I want to thank you and the Department for your continuing support for parents as teachers, which we have discussed many times. Our problem is with our friends and colleagues on the House side. And we will have to handle that problem ourselves.

SPECIAL EDUCATION—ST. LOUIS SPECIAL SCHOOL DISTRICT

I do need to draw your attention to a very special problem in the St. Louis Special School District. St. Louis County organized its special education authorities to have an entity, called the special school district taking in all of the children needing special education.

Some 5 percent of the schoolchildren in St. Louis County are the responsibility of the special district. Because of the way the law, IDEA, is written, there is a real problem with it complying with the letter of the law. But we think the district is complying with the spirit of the law.

There is a time crisis because if some relief is not given by April 15, some 300 teachers will have to be laid off. And that means that 5 percent of the children in the entire St. Louis County area will be without assistance.

In your office, Tom Hehir has been extremely helpful, working from the Office of Special Education, in trying to develop an interim solution. We are grateful for that.

And we hope that we can count on your support to see us through this short-term crisis. And we need to work with you for a longer term solution to the problem.

Secretary RILEY. Thank you so much, Senator, and we are familiar with that. We certainly look forward to working with you on it.

Senator BOND. Thank you, sir.

Thank you, Mr. Chairman.

Senator COCHRAN [presiding]. Thank you, Senator Bond.

EDUCATIONAL TECHNOLOGY PROGRAMS

Mr. Secretary, let me, first of all, thank you for your effort to cooperate with our committee in the planning of a special hearing on educational technology programs that we have scheduled for April 4.

I understand that you are not able to attend that hearing, but your good Deputy Under Secretary will be there in your place. And we appreciate the cooperation of your office in response to our request for that hearing.

We are going to talk in more detail at that hearing about some of the technology issues that face education and face the Federal Department of Education.

The Goals 2000 Act, as you know, authorized a new office of educational technology. And there is a planning grant program that is funded in the appropriations bill last year.

TECHNOLOGY PLANNING GRANTS

I would like to know—and maybe you can give us this for the record if you do not have the numbers here—how many States have applied for technology planning funds and what those States are doing with the funds that are being made available under those grants.

Secretary RILEY. Senator, let us supply you that information. We do not have that right handy. That is an interesting inquiry. And we will, certainly, supply you that information.

Senator COCHRAN. We appreciate that.

[The information follows:]

GOALS 2000 TECHNOLOGY PLANNING FUNDS

To date, all 47 states that have applied for and received Goals 2000 grants, have also received technology planning funds under section 317 of the Goals 2000 Act. Most States receive $75,000—the minimum amount allowed—and are using those funds to develop a statewide technology plan around four objectives:

—The promotion of higher student achievement through the use of technology in education.

—The participation of all schools and school districts in the State, especially those schools and districts with a high percentage or number of disadvantaged students.

—The development and implementation of a cost-effective, high-speed, statewide, inter-operable, wide-area-communication educational technology support system for elementary and secondary schools within the State, particularly for schools in rural areas.

—The promotion of shared usage of equipment, facilities, and other technology resources by adult learners during after-school hours.

Despite the common objectives that link each State's plan, States vary quite a bit in the ways they are using the funds. Some are developing a statewide technology plan for the first time, others are convening a panel that will link various technology initiatives in a coherent fashion, and still others have already developed such a plan and are focusing the resources on various aspects of plan implementation.

OFFICE OF EDUCATIONAL TECHNOLOGY

Senator COCHRAN. We also note with appreciation the letter that you sent to me and Senator Bingaman when we asked if funds could be allocated to establish the Office of Technology.

There was, apparently, no separate line item appropriation. But we urge that that be done, and you have responded by saying it has been done with some funds from salaries and expenses.

Has this been accomplished at this point, or is this something that is in transition?

Secretary RILEY. It has been accomplished. And the separate appropriation, as you pointed out, was not necessary for us to accomplish that. And of course, I know I have worked with you for a number of months on technology issues, and I appreciate your interest and leadership. And I think you realize, Senator, likewise, we are very, very strong on the importance of technology in education.

So that is in the process. It is being done, yes, sir.

Senator COCHRAN. In that connection, because I come from a State where a lot of the districts just do not have the money to provide the equipment and take advantage of the new technologies that are available to help enhance teaching and learning, it is of special importance to States like Mississippi.

Secretary RILEY. Yes.

TITLE I BUDGET REQUEST

Senator COCHRAN. And in that connection, too, I know in the allocation of chapter I funds, you have asked for——

Secretary RILEY. Yes.

Senator COCHRAN [continuing]. Additional funds. The budget, according to the notes, will allocate $1 billion of funds under this new formula that was approved in the legislation authorizing the continuation of title I to those districts that are considered poor and have limited resources for elementary and secondary education.

I just want you to know that this proposal meets with our very strong approval. And we want to express appreciation for your efforts in this way to help the poorest areas of the country meet these special needs.

Secretary RILEY. Thank you, Senator.

DIRECT STUDENT LOAN PROGRAM

Senator COCHRAN. Now, for the bad part: I do not like this direct lending initiative. [Laughter.]

And I want to register my continued protest over the fact that the administration seems hell-bent to go forward at full, breakneck speed on a program that is going to run up the overhead costs enormously for Government administrators.

And I just wonder if you have any late estimates—and maybe it is in the budget notes—as to how much this new direct lending program for college loans is going to cost your Department?

Secretary RILEY. Well, the—in my statement and in the long statement, there will be more information on it. Of course, it is a tremendous gain, net gain for the Federal Government.

Overall, the number we project over a period up to the year 2000 is $12 billion. About one-half of that, $6.8 billion, under the current program from year 1996–2000, and about one-half of it, $5.2 billion, if we go into the accelerated 100-percent plan that the President has recommended to go to, 80 percent next year and then 100 in the following year.

So we think it is a clear, net, significant gain to the Federal Government, and that net gain would count the phaseout of the FFEL program.

COST OF ACCELERATED DIRECT LOAN TRANSITION

Senator COCHRAN. Well, one of the reasons that I am disturbed is that there are such conflicting reports from experts in budget matters about what the true costs are going to be.

Here is a statement I want to put in the record just to complete the transcript of this hearing so that both sides will be before the committee when we review this program.

Dr. Rudolph Penner, who is the former director of the Congressional Budget Office, finds in an analysis of this new program, that the administration's budget for this next year greatly exaggerates—and I am quoting here: "greatly exaggerates the savings that can be gained from shifting to a direct loan program. Under some assumptions, direct loans could be more costly than guarantees."

And they—he goes on in this statement to analyze a report that Dr. Penner has done on this issue. And I am going to put a copy of the analysis in the record and for the information of the committee.

[The information follows:]

STATEMENT OF DR. RUDOLPH G. PENNER, MANAGING DIRECTOR OF THE BARENTS GROUP

Former CBO Director Finds the Administration's Savings Claims from Direct Government Student Lending to be Greatly Exaggerated.

The attached analysis of the Administration's budget savings estimates for the federal student loan program, conducted by Dr. Rudolph G. Penner, former Director of the Congressional Budget Office, finds:

- "The Administration's FY 1996 Budget...greatly exaggerates the savings that can be gained from shifting to a direct loan program. Under some assumptions direct loans could be more costly than guarantees."
- The Department of Education's own estimates of the administrative costs of building up and operating direct student lending cause "claimed savings to shrink by 70 percent to 95 percent over the period 1996-2000."
- Factoring in the above administrative costs, the difference in subsidy costs between direct and guaranteed student loans are "narrowed sufficiently as to be within the range of possible estimating error." Thus, "small errors can easily reverse the order of the estimates (possibly creating a loss to the taxpayer from a shift to direct loans)."
- "The additional borrowing by the Federal government as a result of the direct loan program is likely to raise the cost of borrowing to the government and it will take only a very small increase in the rate to more than offset any presumed savings from the direct loan program."

Budgetary Savings Exaggerated Under the Direct Government Student Loan Program
An Analysis of the Administration's FY 1996 Budget Proposal

The Administration's FY 1996 Budget and supporting documentation regarding the federal student loan program greatly exaggerates the savings that can be gained from shifting to a direct loan program. Under some assumptions direct loans could be more costly than guarantees.

Overview

The Administration proposes acceleration of the current phase-in of the direct government student loan program created under the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). A major reason cited for the Administration's support of direct lending, in 1993 and now, is the projected savings in budget outlays.

These projections have been a point of great dispute and are largely attributable to congressional budget scoring rules that are biased in this instance.

Briefly, the problem centers around budget rules adopted under amendments to the Credit Reform Act enacted in 1990 that do not allow the net present value of administrative costs to be computed as part of the cost of direct loan programs while such costs are included in the calculation for guaranteed loan programs.

If the Department of Education's (ED) own estimates of the administrative costs of building up and operating direct student lending are considered, on average 80 percent of the savings projected by the Administration over academic years 1996 - 2000 would disappear.

This narrows the gap between the total Federal cost of the program sufficiently as to be within the range of probable estimating error. Other factors, such as the economic consequences of the higher national debt that results from direct lending, place in serious doubt if any savings can be realized (or whether the program will end up costing taxpayers more money in the long term).

The Administration's Proposal and Claims

The Administration proposes accelerating the phase-in of direct government lending which is currently in operation at approximately 100 postsecondary education institutions (approximately 5 percent of total student loan volume) and, under current law, may account for more than 60 percent of loan volume by the 1998-99 academic year.

The proposed acceleration of the program calls for direct lending to represent 80 percent of loan volume in academic year 1996-97 and 100 percent thereafter. The Administration claims that the combination of the OBRA '93 mandates for direct lending and the proposed full replacement of the 30-year old guaranteed student loan program by 1997-98 will account for $12 billion in savings over a seven-year period.

It is worth emphasizing that $6.8 billion out of the $12 billion of outlay savings that the Administration claims for the direct loan program in the budget documents is attributable to OBRA '93 and is therefore in the current law baselines. This amount does not represent additional savings in the FY 1996 proposed budget. Moreover, $2 billion of these savings are attributable to reductions in Federal administration payments to participants in the guaranteed loan program.

Savings Claims are Highly Exaggerated

The savings claims under this program as described in the Administration's FY 1996 budget are exaggerated for the following two reasons:

I. Factoring in ED's own estimates of administrative costs to run the direct loan program narrows the costs between guaranteed and direct lending to within a range of possible estimating error.

The Administration has estimated that its proposed acceleration of the direct government loan program results in $4.1 billion in budget outlay savings over five years. Budget estimates for credit programs, such as the Federal student loan programs, are based on the calculation of a "subsidy cost." The subsidy cost of a loan is the net present value of the Federal portion of future costs associated with a loan. These are depicted in cents per dollar loaned.

Calculations of the annual subsidy cost of each of the two programs are based on the valuation rules established in the Credit Reform Act of 1990. These rules specifically exclude the costs of administering the direct loan program from the calculation while including administration costs in the estimates of the loan guarantee program because they are included in the interest rate charged by the private lender. Any comparison of the cost of the two programs on this basis is erroneously biased in favor of the direct loan program.

This bias is substantial. The Department of Education (ED) has released estimates of the administrative costs associated with the direct loan program and the corresponding overall weighted subsidy cost of the program. (See Appendix A). The subsidy cost of administrative outlays under the direct loan program ranges from a low of 5.6 cents (1996) to a high of 7.8 cents (1999) over the academic year 1996 through 2000 period. This represents an increase in the calculated subsidy cost for the direct loan program of 74% in 1995 and 116% in 1999!

These are substantial corrections to the totals used to derive estimates of the outlay impact of the two programs and obviously bring the two much closer. Corrected annual direct loan subsidy costs as compared with the guaranteed loan program subsidy costs are as follows:

Estimated Subsidy Costs
(Cents Per Dollar of Loan)
Guaranteed and Direct Loans

Year	Guaranteed Loans	Direct Loans 1/	Difference
1996	15.67	13.18	2.49
1997	15.21	12.40	2.81
1998	15.01	13.59	1.42
1999	14.96	14.58	0.38
2000	15.10	13.30	1.80

1/ Corrected to include administrative costs.
Source: U.S. Department of Education Budget Systems,
External Technical Group on Direct Loan/FFEL Program Costs

ED estimates that the present value of total administrative outlays for the direct loan program under present law over academic years 1996 through 2000 will be approximately $4.9 billion (See Appendix A). It is probable that these administrative costs will be even higher under the Administration's proposal to accelerate the phase-in of the direct loan program.

Based on ED's own figures, from 70 to 95 percent of the difference between the subsidy cost of direct and guaranteed loans can be explained away by the addition of the administrative costs that are estimated for running the direct government loan program (See Appendix A). While a difference remains, the Administration's cost estimates are narrowed sufficiently as to be within the range of possible estimating error.

Both series are extremely sensitive to the estimating parameters used to project future costs of each years' loan cohort into the future and then calculate the present value of the amounts so projected. The estimates are also sensitive to the projections of total loan volume under each program. Small errors can easily reverse the order of the estimates (possibly creating a loss to the taxpayer from a shift to direct loans.).

II. The direct loan program sharply increases the Federal Government's borrowing needs.

The Congressional Research Service estimates that additional borrowing well in excess of $100 billion will be needed over the 5 year period when direct lending is fully implemented. If direct loans are substituted for guarantees dollar for dollar, the government will have to issue more public debt, but private institutions will issue less debt to the market place. Because the overall level of borrowing remains the same, the average interest rate should remain constant. However, the supply of public debt will rise relative to the supply of private debt and, because investors regard the two types of debt somewhat differently, the rate on public debt may have to rise slightly relative to the rate on private debt in order to persuade investors to hold more public and fewer private securities.

Given the huge amount of debt issued by the government each year for refinancing old debt and for financing the budget deficit, a tiny rise in the cost of borrowing for the government can swamp any of the real savings resulting from moving from guarantees to direct loans for the student loan program. For example, a one basis point, or a 0.01 percent absolute increase in the interest rate on the approximately $1.1 trillion in funds the government borrows yearly would translate into an added costs of $100 million over the average maturity of the cohort of student loans.

Guarantee Agency Reserves

Another component of the Administration's proposals involves the recapture of $1.1 billion in guarantee agency reserves. The stated reason for the recapture is that "(w)ithin the context of this expedited phase-out of the FFEL program, the President is also proposing the return to the Federal Government of a portion of guaranty agency reserve funds that would no longer be needed."

This may not be prudent and it is possible that the reserves may have to be returned if losses exceed the reserves left at the guarantee agencies. In any case, these savings appear to be attributable to the Administration's assessment of excess reserves and independent of the proposal to accelerate the phase-in of the direct loan program.

Summary of Findings

- The above analysis has shown that official scoring rules greatly exaggerate the savings to be derived from substituting direct loans for loan guarantees. The most important bias results from the omission of administrative costs from the costs of the direct loan program. When removed, the claimed savings shrink by 70 percent to 95 percent over the period 1996 - 2000.
- Using ED data, the corrected subsidy costs for the direct loan program are very close to the estimates of the cost of the guaranteed loan program, indeed, within the range of estimating error. Small revisions in the economic forecast can easily reverse the order of the estimates (possibly creating a loss to the taxpayer from a shift to direct loans).
- The additional borrowing by the Federal government as a result of the direct loan program is likely to raise the costs of borrowing to the government and it will take only a very small increase in the rate to more than offset any presumed savings from the direct loan program.

Taking advantage of 'paper' savings to be had by accelerating the phase-in of direct government student lending would be destabilizing to the existing guaranteed student loan program and a major risk for the government and Federal loan programs. If common sense was more important, and budget rules less so, Congress would likely abandon direct lending in favor of additional reforms to the current public/private partnership.

For additional information, please refer to Direct Government Lending vs. Guarantees for Student Loans: A Comparative Analysis, by Dr. Rudolph G. Penner, KPMG Peat Marwick, May 1993.

APPENDIX A

Cohort Year	[Direct] Loan Commitments ($ Millions)	Increased Subsidy			Weighted Subsidy		
		Rate	Budget Authority ($ Millions)	Budget Outlay ($ Millions)	FFEL Program	Direct Loans	
						Excluding Administration	Including Administration
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1994	813	6.43%	52	29			
1995	7094	4.47%	317	199	16.50%	11.11%	15.58%
1996	12862	5.55%	714	612	15.67%	7.63%	13.18%
1997	13359	6.54%	873	836	15.21%	5.86%	12.40%
1998	14771	7.08%	1045	972	15.01%	6.51%	13.59%
1999	15764	7.82%	1233	1190	14.96%	6.76%	14.58%
2000	17731	7.16%	1270	1258	15.10%	6.14%	13.30%
Fy 1996-00			5135	4868			

Source: U.S. Department of Education Budget Systems Division analysis prepared for 2/7/95 meeting of External Technical Group on Direct Loan/FFEL Program Costs.

Calculation of Percent Reduction in Savings Estimates

Cohort Year (a) Above	FFEL Program (f) Above	Direct Loans Unadjusted (g) Above	Savings Unadjuted (2) less (3)	Direct Loans Outlay Costs (c) above	Percent (5) of (4)
(1)	(2)	(3)	(4)	(5)	(6)
1996	15.67%	7.63%	8.04%	5.55%	69.03%
1997	15.21%	5.86%	9.35%	6.54%	69.95%
1998	15.01%	6.51%	8.50%	7.08%	83.29%
1999	14.96%	6.76%	8.20%	7.82%	95.37%
2000	15.10%	6.14%	8.96%	7.16%	79.91%

Source: Data in table above.

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OUTLAY SAVINGS FROM DIRECT LOANS

Senator COCHRAN. We could debate this all afternoon, I guess, and that would bore everybody to death. [Laughter.]

And my time is expired. And Senator Harkin is here. I am going to recognize him at this point.

Senator Harkin.

SAVINGS FROM ACCELERATED DIRECT LOANS PHASE-IN

Secretary RILEY. Senator, in response, why do we not submit some information, too, for the record? If you would permit that——

Senator COCHRAN. Well, that would be helpful. I would like that very much. It would be appreciated.

Secretary RILEY. Thank you.

Senator COCHRAN. Thank you.

[The information follows:]

SAVINGS IN THE DIRECT LOAN PROGRAM

Department estimates of savings associated with the Student Loan Reform Act of 1993 (SLRA) are based on a comparison of post-SLRA costs—i.e., those of the Direct Loan and modified Federal Family Education Loan (FFEL) programs, including administrative costs—and projections of what the FFEL program would have cost if the SLRA had never been passed. In making this comparison, the same interest rate and loan volume assumptions were used for both per- and post-SLRA programs. Estimates prepared using this approach for the fiscal year 1996 President's Budget show $6.8 billion in savings for fiscal years 1995–2000. The President's proposal to fully phase in Direct Loans by academic year 1997–1998 would save an additional $5.2 billion over this period, for a total of $12 billion in savings.

These estimates are based on conservative projections of future Direct Loan spending and reflect all subsidy and administrative costs. The methodology used by the Department to calculate Direct Loan and FFEL costs and savings is required by law for all Federal credit programs. This approach was adopted after careful consideration in 1990—before the Direct Loan program even existed—as part of the Credit Reform Act. It has since been endorsed in a joint report by the Office of Management and Budget and the Congressional Budget Office (CBO) as the most appropriate way to calculate costs for Federal savings programs.

Some analysts, including such as former CBO director Rudolph Penner, have suggested that our estimates substantially understate Direct Loan administrative costs and that projected savings would disappear if these costs were calculated on a different basis. However, even if the Credit Reform Act were changed to alter the current scoring method—as Dr. Penner and others have suggested—Direct Loans would still produce substantial savings when compared to the FFEL program. The advantage for Direct Loans results from two major factors: (1) under current economic assumptions, borrower repayments to the Federal Government exceed the Government's cost of funds, (2) subsidies to FFEL middlemen—7,500 banks, 41 guaranty agencies, and 90 secondary market participants—are eliminated.

Under current estimates, Direct Loan subsidy costs to the Federal Government are $8 less for every $100 loaned than the comparable costs under FFEL. If Direct Loan administrative costs were calculated as Dr. Penner suggests, Direct Loans would still save roughly $4 over FFEL on every $100 loaned. When this advantage is multiplied over $165 billion in total loan volume for both programs over the next five years, the scope of even reduced Direct Loan savings is clear.

DIRECT LOANS SAVINGS FOR UNIVERSITIES

Senator SPECTER. Senator Harkin.

Senator HARKIN. Thank you. I just, obviously, before you got here, Senator Cochran, I had taken, just the opposite tack on the direct loan program. [Laughter.]

You did not have to listen to me. I had to sit here and listen to——

Senator COCHRAN. I did not talk long, though.

Senator HARKIN. That is true. [Laughter.]

All I know is that Iowa State University in Iowa, the land grant college, has told me that it is just one of the best things that ever happened to them.

PREPARED STATEMENT OF EARL E. DOWLING

They said- -and I do not know all of the data. I will submit some information from Mr. Earl E. Dowling on Iowa State's experience with direct lending for the record.

[The statement follows:]

PREPARED STATEMENT OF EARL E. DOWLING, ASSISTANT VICE PRESIDENT FOR ENROLLMENT SERVICES AND DIRECTOR, OFFICE OF STUDENT FINANCIAL AID, IOWA STATE UNIVERSITY, AMES, IA

My name is Earl E. Dowling. I am the Director of Student Financial Aid at Iowa State University. I've been directly involved in the administration and management of student financial aid for nearly twenty three years, and in those twenty-three years I've seen many new aid programs come along. But direct lending is the first new program I've seen in those twenty-three years that was such a definite improvement over its predecessor.

Iowa State University is a public, land grant, Research I university. Our 1994 enrollment included 22,000 undergraduates and 3,000 graduate and veterinary medicine school students. Last year, our total of student financial aid allocations from all sources—Federal, State, institutional, and private—exceeded $100 million.

By far, Iowa State University's largest contributor to student financial aid is the Federal Government. Nine million dollars is in Federal Pell Grant, and $57 million represents the William D. Ford Federal Direct Loan programs. Our 1992 U.S. Department of Education calculated Federal default rate is only 2.6 percent. Student loans are important to Iowa State University students.

Iowa State University is one of the original 104. That is, we were one of the first schools selected to participate in the direct lending program.

During the initial year of direct lending, 15,000 students borrowed $57 million. A review of the fall semester 1994 tuition payments reflects that 1,966 students had their student aid monies to pay tuition in full before the payment deadline. This number is 22 percent more than for the fall semester of 1993. Behavior on the Iowa State University campus did not change. The only change that could have contributed to this significant increase in the number of students with funds available to pay tuition in full was our participation in the William D. Ford Federal Direct Loan Program. Clearly, the proceeds of the loans are provided in a more timely manner than they were under the FFELP.

My colleagues and I know that short-term loan monies tend to reflect a student's response to the delay or unavailability of that individual's student financial aid. At my institution in the past, short-term loan monies were used to "tide students over" until their loan proceeds arrived.

The need for short-term loan monies during our participation in Federal direct lending decreased 28 percent over last year, a year in which we participated in FFELP. The reason is clear. Monies were available when the student needed them. Over $4 million more in on-time tuition payments were available under direct lending than under the FFELP program.

Without questioning the validity, we know that one measure of performance is the number of complaints about an operation. I am pleased to report that during the 1994–1995 academic year, not one letter critical of our office appeared in the student newspaper, not one letter critical of our office was received by our vice president, and not one letter critical of our office was mailed to the president of the university. As a matter of fact, according to students' anecdotal comments, this was the best fall opening ever. Not one student wrote or visited to criticize what, in the past, has been problematic for many students; that is, the availability of monies during the critical fall start up.

While much has been written on the cost of direct loans for taxpayers, for me, quite frankly, of more relevant interest is the amount of monies that direct lending has saved the Office of Student Financial Aid operating budget. For example, under the William D. Ford Federal Direct Loan Program, we administer and manage a larger loan program with fewer people. Under FFELP my student loan staff included an assistant director and two professional counselors. This, in addition to one full-time support staff person and a number of Federal Work-Study funded students. Under Federal direct lending, Federal Work-Study employment in our loan office has been reduced by 30 percent, and the two professional counselors have been reassigned to student support service, an area that counsels prospective students and families about the student financial aid process. Under the William D. Ford Federal Direct Loan Program, a $57 million program is being administered by an assistant director, one full-time support staff member, and two full-time equivalent Federal Work-Study students.

Telephone traffic, always representative of student aid satisfaction, was down 40 percent at a time when bills were due, compared to the same time period under FFELP. Under FFELP, Iowa State University did business in all 50 States. Under the William D. Ford Federal Direct Loan Program, this involvement ceased, and long distance telephone costs decreased significantly.

Federal direct lending is easier to administer and requires less resources. For example, eight computer terminals were removed from operation, at a cost savings of $200 each per month.

Because of direct lending, students are again in control. It is the students who determine their individual repayment options. This means that an Iowa State journalism graduate does not have to follow the same repayment schedule as the chemical engineer graduate. Students under direct lending have options. They can exercise those options. They can take full responsibility for their financial affairs. They are in charge. The student who elects a historically low paying career is not penalized, nor is the student who elects a historically higher paying career rewarded.

I would be remiss if I did not at least mention reconciliation. Admittedly, reconciliation has proven somewhat frustrating. It is, nonetheless, a manageable frustration. Perhaps reconciliation is a little more difficult for mainframe users. Since Iowa State is a mainframe user, the servicer has had to adapt their software to meet our institutional demands and accept our data. While all Federal monies that have been drawn down by Iowa State—all $57 million—is accounted for, we still have $61,000, or 0.11 percent of our loan volume, unreconciled. We want and expect zero tolerance.

IOWA STATE UNIVERSITY OFFICE OF STUDENT FINANCIAL AID

A SUMMARY OF STUDENT AND CAMPUS BENEFITS ASSOCIATED WITH DIRECT LENDING

I. Student service and public relations

Provides a combined application process and totally integrates the Direct loan with other State and Federal programs.

Proceeds of the loan are provided in a more timely manner.

Student does not need to consider the issue of selecting a bank, i.e., have an account or they will be rejected, etc.

Revising approved loan amounts can be accomplished much more quickly. Under FFELP, any change in the loan amount requires the loan to go back through the entire process of approval.

II. Reduced complexity of communication for the Office of Student Financial Aid (OSFA) and Accounts Receivable and Treasurer

Eliminates hundreds of hours of telephone calls with lending institutions, guarantee agencies, and student, checking on the status of applications in the FFELP process.

Eliminates daily communication with AIR regarding loan status questions.

Eliminates receiving and handling checks and wire transfers by lenders.

Eliminates the need for written correspondence, telephone calls, receiving promotional material from lending institutions and guarantee agencies.

Eliminates multiple guarantee agencies and their differing rules and regulations. Reduces processing errors and miscommunication among students.

III. Record keeping and accountability

One "student status confirmation report" replaces the many reports requested from a variety of guarantee agencies.

Eliminates the need to try to maintain current lender codes, telephone numbers, contact people, etc., for hundreds of lenders and guarantors.

Under FFELP, OSFA and the campus is held accountable for a complex process we have little control over. Direct lending provides authority and responsibilities much more consistent with other programs for which the campus is held accountable.

A pro-rata refund policy is much easier for the campus to administer when banks and secondary markets are not part of the question.

IV. Administrative costs and other financial implications

Sending separate notifications, unnecessary student contact time, maintaining extra systems, preparing correspondence, and all the other complexities associated with the FFELP system have very real costs associated with them. Any costs associated with the direct loan system have been covered by savings resulting from the elimination of FFELP loan tasks—while at the same time allowing us to offer much better service to students.

Direct lending enables us to make millions of dollars available to students (and indirectly to the campus) more quickly. The improved cash flow has clear positive implications for the University and its auxiliary units.

The General Accounting Office, the Congressional Budget Office, and the Administration have all indicated that a program of direct lending should save the Federal Government money.

DIRECT LOANS SAVINGS FOR UNIVERSITIES

Senator HARKIN. But they said that they were reassigning several of their student financial loan officers and stuff to other assignments in the university because of the streamlining effect of the direct loan program. So it is saving them money, too.

Senator COCHRAN. But nobody has paid back a loan under this program yet, have they?

Senator HARKIN. What?

Senator COCHRAN. Nobody has paid back a loan or tried to collect the loan or——

Senator HARKIN. No. I am just saying about the initial administrative——

Senator COCHRAN [continuing]. Do a lot of other things that are going to have to be done to administer the program. It is a lot easier to loan it than it is to collect it. Everybody knows that. I mean, that is the point, too. And a lot of these costs, too, are still to be determined.

Senator HARKIN. Yes; I understand that. Well, all I know is when I went through college, I had a direct loan.

Senator COCHRAN. I am not saying it is bad to have a loan program. I am for the loan program. It is just how it is going to actually be administered, whether we are going to save money or we are going to spend more money administering it in this way than we would have in another way.

LOAN DEFAULTS AND COLLECTIONS

Senator HARKIN. The problem is we had, you know, we had default rates under the Guaranteed Student Loan Program. The banks who would guarantee it, you know, if someone got out of school and went off, they just wrote it off as a bad loan. And they really did not have much incentive to go after them because it was guaranteed by the Federal Government.

So the Federal Government—see, if you are the banker, and you are guaranteeing that loan that Bettilou got to go to college and she skips off and does not pay you back, I pay you back. We are the Federal Government. We pay you back. See, so the banker——

Senator COCHRAN. Bettilou wants to be heard after we are through. [Laughter.]

Senator HARKIN. That was a bad example. Bettilou always pays her debts. [Laughter.]

But that is what I mean. Our past experience has been that banks have no incentive to go after those defaulted loans because the Federal Government guaranteed it. And that was the end of it.

I think now, with the direct lending program there might be ways that we might want to look at that in terms of getting the Government involved in the collection of these loans later on through IRS, through other means like that, that we might want to take a look at later on.

But I think those are going to be a lot cheaper and a lot more effective than trying to get the banks to do it. The banks had no incentive, absolutely zero incentive to go after anyone who had defaulted.

So we know on the outlay side, we are saving a lot of money.

Secretary RILEY. Senator, I might point out to Senator Cochran that, in terms of collections, we are contracting with many of the infrastructure folks that are already out there to handle that.

So it will not be like starting brand new on collections. We are entering into contracts with service companies who do a lot of the collecting are there now.

IRS INVOLVEMENT IN LOAN COLLECTION

Senator HARKIN. Well, Mr. Secretary, why do we not just put it as part of the loan agreement that if they do not pay it back, the interest accrues and we can go through IRS to collect it?

We are going to do that for child support payments. Why can we not do it for this?

Secretary RILEY. Well, we have talked, at length, with the IRS, and Treasury, and there are some advantages in that. However, it is very, very complicated in terms of the IRS process.

It would be putting them into an entirely new area of business. And they were very concerned that it would detract from their current operation.

So we have had some interesting discussions in that regard. It would be more effective in terms of collecting all of the funds. But we get the income number from IRS on the earnings so we can have a contingent income process in place. They are going to cooperate fully with us on that, in that regard.

And then, if a person is in default, of course, there is a judgment against them. And it is an ongoing judgment. And we think that defaults will go much further on down.

Senator HARKIN. Well, I do not want to beat this horse anymore. But I just know that when I went through school, we had a direct loan. And we went right to the window and got the direct loan. We did not have to pay it back until after school, after college, after the service. And it worked out just fine.

I always thought that was the slickest, easiest way of doing it. I always had questions about guaranteed student loan and the fact that we were bringing a third party in there, making money off of it.

And we did not need that. But we do not need to get into that. I think you are on the right track on this, on the direct loan program.

SAFE AND DRUG-FREE SCHOOLS RESCISSION

Let me just ask one other question. And that has to do with the House rescissions on the drug-free schools. I find it interesting that the House took this action at the same time that Mrs. Reagan was criticizing the administration for the failure of its antidrug strategy.

And yet they are rescinding the money for the funding for the drug-free schools. I am just wondering if you have any thoughts on that, Mr. Secretary?

Secretary RILEY. Well, this program is really the Federal Government's program in terms of prevention of drug problems in schools. And of course, this rescission takes it out.

It rescinds 100 percent. They got a very small amendment. They got $10 million, I think, put back in, which leaves it at about a 98-percent cut.

And I was out at a school this morning over in Maryland and saw some very effective use of these drug prevention programs in an elementary school, fifth grade students. I think it is a very good program, that it is a real mistake to end it.

And as I pointed out in my statement, we have bottomed out in terms of drug use. Now, in 8th, 10th, and 12th grades, where those are measured, all have kind of eased back up; and for marijuana, a right significant, like a 4- to 6-percent increase.

And so, we are very concerned about that and think that we really ought to be probably doing more instead of less. But we think it is a real mistake to end the national interest in drug prevention in terms of schools and young children.

Senator HARKIN. I appreciate that, Mr. Secretary. I just find it odd that we would cut this out at the time that we were trying to move ahead in that area of fighting drugs in schools.

IN-SCHOOL INTEREST SUBSIDY

Quickly, on Stafford loans, as you know, the proposal is that we will take away the interest subsidy for all of the time the kids are in school.

Now, again, I told you—when I got my direct loan, we did not have any accrued interest until after we got out of school. Now, they want to do away with that.

I am just looking at this, and in my own State of Iowa, over 90,000 students in Iowa depend on student loan support to finance their college expenses each year.

Without the benefit of this Government subsidy, I understand that students in a 4-year program who borrow the maximum loan amount—and I think it is about $17,000, if I am not mistaken. I see a head nod there.

Mr. SMITH. The average total loan——

Senator HARKIN. Well, what is the maximum you can borrow?

Mr. SMITH. In 1 year?

Senator HARKIN. In 4 years.

Mr. SMITH. In 4 years, it turns out to be $17,000.

Secretary RILEY. Yes; $17,000 is the maximum.

Mr. SMITH. So the average, I think, is around $7,000 or $8,000.

EFFECT OF ELIMINATING INTEREST SUBSIDY

Senator HARKIN. OK. But if you borrow the maximum amount—and some students do because they need it—you add that on, I am told it would increase their loan balance by about 21 percent in added capitalized interest.

That is like adding a $3,400 tax increase on a student graduating from college. That is what it is. It is just a tax increase. Even if you took the average, if you said, $10,000, one-fifth, well, that is $2,000. It is a $2,000 tax increase.

And I am just wondering, you know, who are we looking at? What kind of students are we looking at that would be affected by this tax increase?

Secretary RILEY. Well, it amounts to, over a 4-year period, 18- to 20-percent increase on the loan, and there are some 5 million needy students that now benefit from the in-school subsidy.

And they have to show a financial need to qualify; 50 percent of the borrowers report family incomes of under $12,000; 76 percent have incomes under $30,000.

Senator HARKIN. Sixty percent?

Secretary RILEY. Some 76 percent have incomes under $30,000. But 50 percent have incomes under $12,000. And I think that is rather significant. These are very much needy students. And without this kind of help, really, going to college would be very much of a strain.

Senator HARKIN. And the average, did you tell me, again, was—what, $8,000 is average?

Mr. SMITH. $7,000 or $8,000, right. The average indebtedness now is about $7,500.

Senator HARKIN. Average. Well, I think that is just a pure and simple tax increase if you are going to do that.

Thank you very much, Mr. Secretary.

BALANCING THE FEDERAL BUDGET BY YEAR 2002

Senator SPECTER [presiding]. Mr. Secretary, I would like to turn to the rescissions, on the general subject of which is the least problemsome.

And in that context, I would like to explore with you the overall glide path to a balanced budget by the year 2002 and seek your assistance on how we get there.

As I know you will recall, shortly after the election, I called you anticipating being chairman of this subcommittee, taking over the onerous job of Senator Harkin who finally was relieved of it. [Laughter.]

And I asked you to take a preliminary look at the earliest possible moment as to what could be cut least painfully. And then we talked about it after the session of the Congress started.

As a threshold question, do you agree with the proposition that we should balance the budget by the year 2002?

Secretary RILEY. Mr. Chairman, I think we should make every reasonable effort to do that. And we should, certainly, move in that direction. And nothing would please me more than to balance the budget by the year 2002.

Senator SPECTER. I am going to take that as a yes.

Secretary RILEY. It is a yes. But it is a qualified yes because we do not know what is going to happen in the economy and other factors. But I agree with you that we should, certainly, be on a path in that direction.

FAIRSHARE OF EDUCATION RESCISSIONS TO BALANCE BUDGET

Senator SPECTER. Well, I would like you to give some thought—and it is too complicated to answer today—on what a fair share would be from the Department of Education.

When we are asked to take a cut of 35 percent in this rescission package today, when we have 25 percent of discretionary funding, that is too much on its face. And then, there are other programs that ought to share in the cuts as well, as well as the discretionary programs.

So what I would like you to do is to give me your thinking as to what is a fair share for your Department—now, we are looking now at what is a fair share for the three Departments we have to work with—and then to assess what are the least painful items to be cut. That is what we have to do.

And I would like your thinking on those two questions because you have a lot of experience. And there is great respect on both sides of the aisle for what you think about these things.

[The information follows:]

FISCAL YEAR 1995 EDUCATION RESCISSION PROPOSALS AND BALANCING THE FEDERAL BUDGET

Your questions highlight the need to think long-term when it comes to education. In all of our efforts to reduce program spending, both to transform the Department into a more efficient and effective organization and to secure savings to help address the Federal deficit, we have been careful not to lose sight of the importance of education for the Nation's future. In a very real sense, education is our future, and we must be careful that our efforts to reduce the budget deficit do not create a human deficit. We cannot have programs affecting the most vulnerable in our society, our children, bear a disproportionate burden of cuts.

Cutting our investment in education now will actually increase the deficit in the future, because our citizens will be less skilled and productive, and less able to compete with better-educated workers in other countries. I am open to good, positive recommendations by committee members to avenues of real savings, but we must not fall victim to short-term thinking. We must think long-term, and invest for the long-term.

We at the Department of Education understand and share the concern of Congress with getting the Federal deficit under control. We have looked carefully at our management systems and have economized and streamlined our operations to help cut costs. We have carefully reviewed our programs to determine which could be sustained at reduced funding levels, which duplicate other programs or are better carried out at the State and local levels, and which could be consolidated or terminated—without jeopardizing our important work. Each management and program change and proposal reflects out efforts to have an efficient, effective Department to help control the Federal budget deficit and yet still further our important mission.

Last year, the Department proposed the elimination of 34 programs, and our 1996 budget proposes to terminate or phase out funding for 41 programs, with an attendant savings of nearly $750 million. Our proposal to speed up the transition from Federal Family Education Loans to Direct Loans, with Direct Loans representing 80 percent of new student loan volume in 1996–97 and 100 percent in 1997–98, not only makes for a more efficient program of student loans but would save over $12 billion in Federal outlays by the year 2000. These proposals demonstrate that we are serious not only in making Department of Education programs more responsive and effective, but in saving money as well.

Our budget request reflects our best judgment on how funds should be reallocated from lower priority programs to those that will do the most to increase both educational quality and opportunity. Our budget request includes 16 rescissions of 1995 program funding that would save $188 million. To go beyond these cuts would undermine the bipartisan education reform strategy put in place by Congress over the past two years, and would break faith with parents, teachers, and business and community leaders across the country who are working to develop their own reform plans and who are counting on Federal dollars to help implement those plans. Rescissions to education funding proposed by the Department remain those that are most "palatable," and that would have the least effect on our ability to reach the educational objectives underlying our mission.

ENSURING RESCISSIONS DON'T CREATE HUMAN DEFICIT

Senator SPECTER. Now, turning specifically to the list of rescissions, are you in a position at this moment to state a judgment on how much the Department of Education ought to have by way of rescissions?

Secretary RILEY. Mr. Chairman, that, needless to say, is a very difficult thing for me to deal with. I do think this: That we have to start with the clear understanding—and I believe anyone who analyzes the future of this country understands the importance of education—that education ought not to take a percentage of cuts because we think that education ought to be treated differently than any of the other human improvement parts of the budget.

We think there is such a thing as human deficit right along with budget deficit. And we have got to have, by the year 2002, a work force and a population that is well educated. And, whatever it takes to do that, I think we need to do it.

So it is hard for me to take a percentage and say we ought to cut 15 percent or 20 percent or whatever. But, I absolutely agree with you that we ought to be cutting and working on cutting just like everyone else.

PROPOSED PROGRAM TERMINATIONS/PHASE-OUTS/CONSOLIDATIONS

And I would ask you to look at what we have done and recommended. As I said in my statement, there are 68 programs this year, that we either have terminated, phased out or consolidated into broader-based programs.

That comes to some $700 to $800 million of cuts. We think that is significant. And that really is the way we would like to look at cutting, to look at our programs, decide what we can do without, what we can consolidate and so forth.

Senator SPECTER. Well, I am looking now at the education program terminations proposed by the administration in fiscal year 1995 rescissions, and the total is $187,700,000.

Secretary RILEY. Right. Yes.

Senator SPECTER. Now, that contrasts with $1.7 billion, which has been recommended by the House, not quite, but almost 10 times as much.

Secretary RILEY. Yes; of course, I was talking about 1995–96, of course. Those are rescissions plus terminations that we recommended in the budget.

Senator SPECTER. Well, let us stick with 1995 for just 1 minute. We do not have a House figure for 1996 yet.

Secretary RILEY. Yes.

EDUCATION RESCISSION PROPOSALS

Senator SPECTER. But are you saying that—well, why do I not ask you to rethink this question as to where you come out on rescissions in light of what the House has done today?

Secretary RILEY. All right, sir.

Senator SPECTER. This is not something you can jump—that you can come to a conclusion on on the spur of the moment.

Secretary RILEY. Yes.

Senator SPECTER. But we are in the midst of a complex process. And you understand the whole thing——

Secretary RILEY. I do.

Senator SPECTER [continuing]. Every bit as well, if not better than those of us on this side of the panel. And we are going to be meeting today at 4:30 p.m., our committee, on the Republican side, to take a look at the House figures.

Secretary RILEY. Yes.

Senator SPECTER. And I would like to know what you would say as to their figure, and within that overall figure, where you would find it least painful.

Secretary RILEY. Well, we would welcome participating in that process. And I will see to it that Dr. Smith or others of our office, and Sally and others, would participate. And I, too, would be, certainly, happy to participate.

Senator SPECTER. All right. Well, we would like you to do that. And I do not disagree with your generalization about education being a priority.

But as part of the political process, some disagree with it as a priority, and some want to eliminate the Department all together. So that is part of the mixture.

Senator Gorton.

SAFE AND DRUG-FREE SCHOOLS

Senator GORTON. Mr. Secretary, you speak in your written statement about juvenile crime and, in particularly, crime and disorder in schools.

Last year, I was ultimately successful in getting at least a part of an amendment which delegated more responsibilities to school districts from the Federal Government, you know, for that subject, and intend to pursue the same subject this year.

In your written testimony, you say to deal with problems of violence, we need to invest in programs like safe and drug-free schools with the purpose of improving drug abuse prevention education, and the like.

I would like to share with you a story from the Tacoma, WA newspaper less than 1 month ago.

The story says:

> Expelling students who bring guns to school has resulted in a sharp decline of firearms being found in classrooms. In Tacoma, students may be expelled even for having replicas of guns. Use of metal detectors and this new policy have resulted in the decline from 28 guns confiscated in the last school year to 2 so far this year. Students seem happier, too.

And there are some quotes from those students.

SAFE SCHOOLS—FEDERAL OR STATE RESPONSIBILITY

Do you not believe that we would be better off in dealing with the problem of violence in the schools simply by abandoning Federal rules and regulations dealing with that subject and, once again, allowing school districts and school administrators themselves to deal with violence in varying ways as they see fit throughout the United States?

Secretary RILEY. Well, Senator, that generally is the case now, that punishment and related issues are the prerogative of the local school districts and governed by State law.

We do have some concerns, of course, in this area. You and I have talked about IDEA protections and other areas, and some of those issues overlap. And that is, perhaps, what you are referring to. But, generally, the punishment part of it is not the part the Federal Government is involved in.

The guns in school issue and 1-year expulsion requirement are one area that I think overlaps. But I agree with you that, generally, punishment should be a State and local prerogative, yes, sir.

TOTAL ELEMENTARY AND SECONDARY EDUCATION BUDGET

Senator GORTON. Thank you. Mr. Secretary, I looked very quickly through your testimony. What is the total amount of money in your budget for the year 1996 that will go into elementary and secondary education, all of your programs combined?

Secretary RILEY. Do you want to check that?

Mr. SMITH. Yes.

Senator GORTON. Just approximately.

Secretary RILEY. Generally, it is, what, $13 or $14 billion?

Mr. SMITH. Approximately $13 billion.

Secretary RILEY. $13 billion, approximately.

IMPACT OF CONVERTING ALL FUNDS TO LEA BLOCK GRANTS

Senator GORTON. What would be the impact on education in the United States if we simply distributed that $13 billion to every school district in the United States on a per-student basis or perhaps with some bias toward the number of either, you know, underprivileged or disabled students, and allowed its entire use in each school district to be determined by that school district?

What would be the impact on education in this country?

Secretary RILEY. Well, it would vary, Senator, differ from State to State. Some States it would mean a reduction in State taxes.

Some it would be a reduction in local taxes. Others would get involved in using it in different ways. Some would emphasize disadvantaged kids just like title I does. Some would look to disabled kids when others would not.

So you would have a real fragmented use of the funds. But you would have, I think, a basic problem, almost a constitutional problem of having a major tax put on people at one level of Government and the responsibility 100 percent at the other level of Government without any accountability of those funds, without any use of the funds directed to a national purpose.

Senator GORTON. Do you think that revenue sharing back in the 1970's was unconstitutional?

Secretary **Riley**. Do I think what?

Senator **Gorton**. Revenue sharing with municipal corporations in the 1970's was unconstitutional?

Secretary **Riley**. Well, I do not think this would be unconstitutional. I say it would be a constitutional question to me as far as what level of Government taxes and what level of Government provides the services. I do not mean it would be a——

IMPACT ON QUALITY IF ALL DECISIONS MADE LOCALLY

Senator **Gorton**. My question is: Do you think the overall average quality of education in the United States would decline if these decisions were made locally?

Secretary **Riley**. Yes, sir; significantly so. And I think the focus that careful years of study have placed on uses of those funds and the accountability process would be totally diminished.

IMPACT ON QUALITY IF ALL FUNDS PROVIDED TO PARENTS

Senator **Gorton**. OK. And let us take another variant on that. What if this $13 billion was simply distributed on a formula basis to every parent of a school-aged child in the United States with the requirement that it be used directly for educational purposes? Would the quality of education improve or decline?

Secretary **Riley**. Again, it would decline, in my judgment. Some parents would be very careful, knowledgeable enough, educated enough, savvy enough to use the funds in a certain way.

Other parents, who would have very poor circumstances, would have different considerations, food on the table, for example.

And I think it would be a diversion away from saying that it is a national function of this Government to do something about disadvantaged young people and disabled young people and limited English-proficient and so forth.

VALUE OF PRESENT SYSTEM AND OF GOALS 2000

Senator **Gorton**. So given $13 billion a year from the Federal level without a change, the present system is the best system.

Secretary **Riley**. I think the present system is the best system. And I think we should continue our work like we are doing in Goals 2000, which, as I said in my statement, is a responsible block grant, which goes down with broad national goals, of which, really, most of them emanated from the Governors.

But you have an assessment required by the States. The State does their own standards, their own goals, their own assessment.

And then the people there can see if the funds are actually improving education or they are not. So you have broad goals, which are Federal goals, national goals, high standards, safety, parent involvement or whatever.

And then you have the assessment, which is a State assessment, that is a form of accountability. But there are no regulations. They do it how they want to do it.

I think that is, kind of, a model of the Federal-State relationship in terms of education. So we are for moving more in that direction instead of less.

Senator **Gorton**. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Secretary RILEY. Thank you.

Senator SPECTER. Senator Jeffords.

EDUCATIONAL ACHIEVEMENT—AREAS NEEDING IMPROVEMENT

Senator JEFFORDS. Mr. Secretary, as always, it is a pleasure to have you here. And I agree with your answers you gave just previous to the questions, very strongly.

You gave us somewhat of an optimistic picture about education. On the other hand, I think if we put it in perspective, we would recognize there is a long ways to go. You started off by saying we turned the corner.

But, I think you would agree with me that the outcome studies show that, with respect to goals two and three, we are still a long, long ways from being acceptable, as I think the latest report is that still over 50 percent of our high school students graduate functionally illiterate, essentially, and incapable of an entry level job.

We are still, even though we are improving in math and science—at least there will be another report coming out shortly that will show, even though we are improving, the gap between us and the Asian students is widening.

So I just also want to remind everybody that the competition we face now is not among ourselves but with our international competitors. And I say that because I am going to fight as best I can any cuts in the total amount of money spent on education, when, in my mind, in order to meet the competition internationally, we are going to have to increase our efforts.

And that means either more funds or better utilization of the present funds. I wonder if you would tend to, kind of, agree with what I have to say. [Laughter.]

Secretary RILEY. I not only tend to. I absolutely do, and, I thoroughly agree with you that, in your opening statement, that we do have a long way to go. And I went on to say that.

I think it is important, Senator, though, to see things happening that are positive as a result of things that we are doing. So I do think that we have turned the corner.

And we really have things in place to center in on high standards and discipline learning and safety and parent involvement and those things that really can move the Nation ahead in terms of education.

I think those are in place. We need to continue to improve them. But I thoroughly agree with you that we have a long, long way to go. It is going to be a good journey though. I am looking forward to it.

Senator JEFFORDS. Oh, I am, too. I think we are turning the corner but we have a long ways to go.

I do not know whether this question has been asked. If it has, you can tell me it has and I will find out the answer elsewhere.

IMPACT OF GOALS 2000 RESCISSION

But I am concerned about the cuts in the money for planning for the Goals 2000. And what impact will it have if those rescission cuts that are coming up are put in place? What impact do you believe that will have?

Secretary **Riley**. As I recall, it is 4,000 schools that then would be impacted with those cuts. The fact is, of course, that already there are 45 States and 8 territories that have applied for, and received funds.

And 90 percent of those funds go straight down to the local school districts. So when you are talking about funds getting down to the source, 90 percent of those funds that are proposed for rescission would go straight down to the school district from the State.

Each school district in each State could compete for a grant and in turn provide the funds to schools for their local improvement activities.

So it is a direct pull of money off of the local school districts' energy to improve their own schools.

TITLE II, PROFESSIONAL DEVELOPMENT GRANTS

Senator **Jeffords**. Now, I see we are going to have a debate on chapter 2. I see that you have zeroed the funding out, I believe, on chapter 2 in the Elementary and Secondary Education Act.

How do you think we can fill the gap if we do that for the kind of assistance that chapter 2 gives to our teachers in training and in planning and the things that they use the money for?

Secretary **Riley**. Well, of course, we have expanded Eisenhower professional development. And that is the new title II. A lot of the funds under chapter—old chapter 2 were used for professional development.

And some of the best uses of funds were in professional development. No question about it, if we are going to have high standards, you have to teach to the high standards. And that causes teachers, also, to need constant attention and training possibilities, and teachers want that.

So we have shifted the resources into our recommendation, into professional development under a new title II that should be very effective.

The evaluations of old chapter 2 were very flimsy, if that is a good term. You could not put your hand on what was working, what was not, what was being accomplished. And consequently, the Congress was reducing the level of funding from year to year because it really could not be shown to be accomplishing very much.

So we recommended to focus on professional development. And that, we think, is the best way to spend those funds.

DIRECT LOANS—CORRESPONDENCE WITH DEPARTMENT

Senator **Jeffords**. Finally, as you know, I believe I wrote to you on February 21 for some information on direct lending. And I still have not received a response to that.

I am in the middle on the debate on direct lending versus the other programs. And we are going to be holding hearings. And I would appreciate it if—on direct lending oversight—and I would appreciate it if I could get a response to that letter.

Secretary **Riley**. I will check that this afternoon.

Mr. SMITH. I understand that the letter was sent out yesterday. So you should have gotten it today, or tomorrow. [Laughter.]

It is in the mail, Senator. [Laughter.]

Senator JEFFORDS. Oh, OK. Thank you. My information—maybe it is in the mail, but it was sent out on February 21 asking for a response by March 10. But anyway——

Secretary RILEY. We will find that——

Senator JEFFORDS. OK. Thank you.

Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator Jeffords.

Well, Mr. Secretary, we thank you for coming in today. We have asked a number of questions. I will be submitting a fair number of questions in writing for the record.

ADDITIONAL COMMITTEE QUESTIONS

And as we work through the process, there will be a great many more questions which will come before us. And we will be in touch with you, either I personally or through staff, as we try to work through this rescission package.

So thank you very much.

Secretary RILEY. Thank you very much, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

STUDENT LOANS IN-SCHOOL INTEREST SUBSIDY--DEPARTMENTAL POSITION ON SUBSIDY ELIMINATION

Question. Current law allows students to defer until graduation interest payments on students loans. The Federal Government now pays that interest. GOP leaders have proposed to eliminate the deferment. This proposal, however, has met with opposition from House Education Committee Chairman Goodling.

What is your position on the suggestion by some Republicans that we eliminate the in-school interest subsidy?

Answer. I oppose the elimination of the in-school interest subsidy because this policy would increase the difficulty that many students already face as they attempt to finance a postsecondary education. In fact, the elimination of the in-school interest subsidy could cause many prospective students not to pursue a postsecondary education.

EFFECT OF SUBSIDY ELIMINATION

Question. What would be the effect of this policy on students?

Answer. This policy would hurt students who need assistance the most. Student borrowers who qualify to receive the Stafford interest exemption are among our neediest students. Stafford borrowers must show financial need to qualify--46 percent of Stafford borrowers report family incomes under $12,000 while 76 percent have incomes under $30,000--and some five million needy students now benefit. Many borrowers **already** face excessive debt burdens as they begin their careers, a problem likely to intensify due to rising debt levels and declining real incomes.

The following example depicts the total debt burden of a 4-year undergraduate Stafford borrower who borrowed the maximum each year for a total debt of $17,125, completed school in academic year 1994-95, and then began employment.

Example: **With** In-School Interest Subsidy

	Annual Repayment	Income	Debt Burden
Borrower:	$2,520	$20,500	12.3%

The 12.3% debt burden level in this example exceeds the 10 percent level generally acknowledged as manageable. The income shown is the median income level for 1990 (latest year available) bachelor degree recipients in their first year after graduation. **If the subsidy were eliminated, interest accrued would total $3,150, increasing the borrower's total debt (from $17,125 to $20,275) and annual repayments by more than 18 percent,** and causing debt burden levels to increase substantially, as the following adjusted example shows.

Example: **Without** In-School Interest Subsidy

	Annual Repayment	Income	Debt Burden
Borrower:	$2,988	$20,500	14.6%

Students with smaller incomes would suffer substantially more. A student with a $10,000 income who borrows the maximum already faces a **25.2%** debt burden, which would increase to **29.9%** if the interest subsidy was eliminated.

It is important to note that the income amounts used in these examples represent income **before taxes**; consequently, they understate debt burdens. Additionally, real incomes for recent college graduates have decreased over time while real debt levels have increased significantly, meaning that it is growing ever-more difficult for students to finance a postsecondary education. For example, from 1977 to 1990 real median income declined by one percent for bachelor degree recipients in their first year after graduation while real median loan debt increased 69% over that same period (in constant 1990 dollars). These trends--falling earnings and increased debt levels--are continuing. Debt levels for undergraduates beginning postsecondary education this year are expected to be 30% higher than they were for students graduating this year.

With many families already borrowing heavily to finance postsecondary education, some schools are threatening to drop out of the Stafford program if the subsidy is cancelled. Needy borrowers taking on additional debt will be significantly more vulnerable to default if the interest subsidy is eliminated. Consequently, they may restrict school and career choices, particularly if their desired area of study is a high-tuition program, or if they seek to enter a field with lower financial rewards. Some prospective students may choose not to pursue a postsecondary education, fearing that future debt burdens would hamper their ability to function effectively as an adult. Such restrictions would prove counterproductive, both to students as individuals and to society as a whole because college graduates are more likely to maintain employment, provide more tax revenue, and make fewer demands on government.

PRENATAL EDUCATION AND COUNSELING

Question. Mr. Secretary, we have discussed in the past the tragedy of children being born of very low birthweight and the enormous costs associated with caring for these children. My amendment to the Improving America's Schools Act (IASA) last year authorized $1 million for a program to provide education and counseling to pregnant teens in a school setting. The program would emphasize the importance of prenatal care, the value of sound diet and nutrition habits, and the harmful effects of smoking, alcohol, and substance abuse on fetal development. Costs of caring for children of low birthweight range from $150,000 to $200,000 per year.

Mr. Secretary, do you see any pitfalls to starting a prenatal counseling program for pregnant teens in schools?

Answer. Like you, Senator, I believe reducing the incidence of teen pregnancy and low birth weight babies is a tremendously important goal. Although there are no "silver bullet" programs for preventing teen pregnancy or low birth weight babies, a strong education plays a critical role. Therefore, the Department of Education can make an important contribution to addressing this problem.

From an education standpoint, we have found that young people who are doing badly in school and see no chances for their future are most at-risk of becoming parents too early. In fact, being two years behind in grade is probably the strongest predictor of teen pregnancy.

Providing students the opportunity to succeed in school and go on to jobs or further education may be the most important thing our Nation can do to prevent and reduce teen pregnancy and ensure that teens who do become pregnant are motivated to seek prenatal care.

The provision in IASA, which authorizes $1 million under the Fund for the Improvement of Education for demonstration projects to test whether prenatal education and counseling for pregnant students can improve pregnancy outcomes such as reducing the number of low-birth weight babies, will definitely help in addressing this problem. I do not foresee any pitfalls to implementation of an effective program and Department staff are in the process of drawing up a plan for use of these funds, with the intent of responding to this critical issue as quickly as possible.

In looking into the issue, staff have found that other Federal agencies have conducted a fair amount of research and demonstration projects on ways to encourage young women to get prenatal care. An example is the Department of Health and Human Services' Adolescent Family Life Program, which for nearly 15 years has funded demonstrations on how to improve access to prenatal care and reduce low-birth weight babies, including through education and counseling. So as not to duplicate these efforts, we will work with other agencies to set out a plan for what the Department of Education can do within a budget of $1 million--to be spent over the next few years--that will be of value in addressing this critical issue.

MULTIPLE FEDERAL TEACHER TRAINING PROGRAMS

Question. A recent GAO report identified 86 programs in 9 Federal agencies that supported teacher training, with 60 programs operated by the Department of Education. Over 130 program officers were employed to oversee the 42 of these programs primarily dedicated to teacher training. What steps does the Department of Education propose to reduce the number of programs and the administrative costs associated with overseeing them?

Answer. Since FY 1993, the base year used in the GAO report, Multiple Teacher Training Programs, the Department has worked to streamline its administration and consolidate its programs to allow more flexibility and to create a greater impact on education at the State and local levels. In its budgets since 1993, the Department has consistently proposed eliminating or incorporating smaller programs and authorities into larger programs. This would allow the Department to pursue its priorities and administer its remaining programs more effectively.

Presently, of the 60 FY 1993 Department of Education programs listed in the GAO report, only 8 exclusively focus on teacher training and retraining. The remaining 52 programs found in the report have a broader authority than solely teacher training and are either: (1) not funded, or (2) proposed for elimination by the Administration in FY 1996.

DEPARTMENT OF EDUCATION TEACHER TRAINING PROGRAMS--PROPOSED ELIMINATIONS AND CONSOLIDATIONS

In its 1995 budget, the Administration applied the recommendations of the National Performance Review by proposing the elimination of programs that were duplicative or had accomplished their program goals. Congress accepted some of the proposed program eliminations. Therefore, a number of the GAO-cited programs -- for example, Follow Through, Territorial Teacher Training, and Bilingual Vocational Training -- are no longer in existence.

In formulating the budget for FY 1996, the Administration continued to reexamine the usefulness of certain Federal programs, including teacher training. As a result, the 1996 budget proposes no further funding for programs such as Douglas Teacher Scholarships and National Science Scholars. In addition, the Christa McAuliffe Fellowships program is proposed for consolidation with Eisenhower Professional Development Federal Activities. These small programs that serve limited populations are unable to address adequately the need for good preservice and inservice training. With the expansion of the Eisenhower Professional Development program, the Administration believes a greater impact can be made on teacher training and retraining at the State and local levels.

The Department has also attempted to consolidate programs through the restructuring of its program authorities. Through the reauthorized Elementary and Secondary Education Act (ESEA) and the pending reauthorization of the Individuals with Disabilities Education Act (IDEA), States and localities can use program funds to serve their own local needs and interests. These broader authorities include, or will include, teacher training and retraining as allowable activities. For example, the reauthorized ESEA allows LEAs receiving Safe and Drug-Free School and Community funds to provide "professional development of school personnel ... in designing and implementing strategies to prevent school violence." A separate Safe and Drug-Free Schools personnel development authority was repealed. Although still in the drafting stage, the IDEA reauthorization will take three separate GAO-cited programs, (1) Media and Captioning for Individuals with Disabilities, (2) Services for Children with Deaf-Blindness, and the (3) Special Education -- Severely Disabled Program, and consolidate them into a broader Special Education Personnel Development and Parent Training program.

In the 3-year period since FY 1993, the Department has taken steps not only to restructure its programs, but also to streamline its administration of these programs. We will continue to do so. As stated above, only 8 of 60 programs on the GAO list are devoted to teacher training and retraining. These programs, complemented by broader program authorities, will provide the flexibility and focus needed to allow States and localities to provide professional development activities that will have a greater impact on the teaching of our Nation's children.

REDUCTION OF NON-DEPARTMENT OF EDUCATION TEACHER TRAINING PROGRAMS

Question. What steps should be taken to reduce the number of teacher training programs operated by agencies other than the Department of Education?

Answer. The GAO report cites eight other agencies that offer teacher training and retraining programs besides the Department of Education. While the bulk of teacher training and retraining funds fall under the purview of the Department of Education, there is a role for other Federal agencies to be involved in the provision of training in their areas of expertise. With the adoption of the National Education Goals in 1993, the goal of students' mastery in the nine core academic subject areas of English, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography has provided a unique challenge to the Nation. The training efforts of other agencies can help the country in achieving this goal, bringing to bear resources and expertise that the Department cannot provide on its own. NASA and the National Science Foundation (NSF), for example, can provide up-to-date training for science teachers on space and aeronautics. The National Endowments for the Arts and for the Humanities can offer the most current research for teachers of the arts, history, and the other humanities. By providing these specialized training activities, these agencies complement the Department's own training efforts.

To coordinate these efforts, the Department, since 1990, has participated in the National Science and Technology Council's Committee on Education and Training (CET), an interagency group charged with organizing Federal education and training activities in mathematics, science, engineering, and technology. In 1992, the Department also entered into a Memorandum of Understanding (MOU) with NSF to coordinate the education programs of both agencies, including professional development. These interagency groups give participating Federal agencies the opportunity to compare applicable activities, including teacher training, and to ensure nonduplication of services. The Department has also established a "Professional Development Team," which coordinates teacher training and retraining activities across all the Department program offices and will begin working with other agencies.

The Department alone does not have the authority to propose the reduction of programs in other executive agencies. The Office of Management and Budget could undertake a cross-cutting agency review of teacher training programs across the Executive branch, but the Department does not anticipate the need for such a review, considering the level of interagency cooperation on teacher training occurring through the CET, the Department 's MOU with NSF, and the Professional Development Team.

CHARTER SCHOOLS

Question. The recent GAO report on charter schools recommended that the Secretary determine whether States may consider legally independent charter schools as local educational agencies. The Department's response to this recommendation did not fully clarify whether, and under what conditions, charter schools can be considered local educational agencies.

Do charter schools that are legally independent from school districts, such as those in Arizona, Massachusetts, Minnesota, and Michigan, meet the Federal definition of a local educational agency; if not, why?

Answer. The Department considers it a State's responsibility to determine whether charter schools that are legally independent from school districts are local educational agencies. The Department would recognize reasonable determinations made by a State that a given charter school meets the Federal definition of "local educational agency." However, a State may not recognize a local educational agency for the purposes of Federal programs only.

SPECIAL EDUCATION LEGAL EXPENSES

Question. A recent newspaper article showed skyrocketing legal expenses for school districts from parents appealing their children's special education placements. The article pointed to parents ability to recoup attorney's fees when their appeals succeed as a factor in this increase.

To what extent are Federal special education funds used to pay for legal expenses associated with parental appeals of special education placements?

Answer. States and LEAs may not use Federal special education funds to pay the costs of a parent's attorneys' fees, nor may they use Federal dollars to pay for the cost of private counsel for the State or LEAs if in-house counsel is available to provide legal services or legal services are provided by the chief legal officer of a State or LEA as part of his or her general responsibility. However, the State or LEA may use grant funds to pay for the cost of legal expenses necessary for the administration of IDEA programs. The Department does not have information on the amount of funds used for legal expenses associated with special education because States are not required to report on expenditures for this purpose.

Question. What steps should be taken to stem the increase in special education legal expenses?

Answer. IDEA currently authorizes a court, at its discretion, to award reasonable attorney's fees to parents who are prevailing parties, and also specifies circumstances for limiting such awards. The Department believes that the ability of parents to receive compensation for attorney's fees provides an important protection to parents seeking to ensure that their child with a disability receives a free appropriate public education and that access to attorney's fees needs to remain available. However, we also share your concern about the cost of attorney's fees and are also concerned about the effect of court cases, which are necessarily adversarial in nature, on the relationship of parents and school districts.

The Department is considering inclusion of a statutory change in the Administration's reauthorization proposal to require mediation to be offered as an option for dispute resolution. Under this proposal, a school district would be required to engage in mediation if the family wishes to mediate, provided the parent's right to due process is not limited. Mediation is a non-adversarial method of conflict resolution that can result in reduced stress and lower expense for participants. We believe that use of mediation might improve parent-school communication and help resolve disagreements more amicably and at a lower level. The National Association of State Directors of Special Education recently completed a small-scale study on mediation for the Office of Special Education Programs. The study, while limited in scope, suggests that, "the limited documentation currently available appears to confirm the benefits of mediation over the more formal due process hearing as a strategy for reaching a successful settlement of disputes between parents and schools. Given the premise that the best educational program for any student is one on which parent and school district personnel agree, it appears that the option of mediation under special education laws should be retained and expanded to all States..."

QUESTIONS SUBMITTED BY SENATOR HARKIN

STUDENT LOANS IN-SCHOOL INTEREST EXEMPTION--IMPACT OF SUBSIDY ELIMINATION

Question. Please explain the impact of the elimination of the in-school interest subsidy on student borrowers and their families, and provide a profile of the income levels of borrowers.

Answer. Student borrowers who qualify to receive the Stafford interest exemption are among our neediest students. Subsidized Stafford borrowers must show financial need to qualify--76 percent have incomes under $30,000, with 46 percent reporting family incomes under $12,000 --and some 5 million needy students now benefit. Many are **already** facing excessive debt burdens as they begin their careers, a problem likely to intensify due to rising debt levels and declining real incomes.

The following table details a percentage distribution of subsidized borrowers by family income category, before repayment.

Subsidized Borrowers--Distribution by Family Income

$0-11,999	$12-19,999	$20-29,999	$30-39,999	$40-49,999	$50,000 +
46.3%	15.4%	14.6%	10.7%	6.3%	6.8%

IMPACT BY INCOME LEVEL OF SUBSIDY ELIMINATION-- FOR STUDENTS BORROWING MAXIMUM LOAN AMOUNT

Question. What will be the impact at each income level for students borrowing the maximum loan amount authorized each year as an undergraduate?

Answer. **If the subsidy were eliminated, interest owed by a student borrowing the maximum would total $3,150, increasing that student's total Stafford debt from $17,125 to $20,275, and increasing annual repayments by more than 18 percent.** The following table identifies annual repayments and debt burden levels, with and without the in-school subsidy, that students will face as they begin repaying loans, based upon having borrowed the maximum loan amount and repaying under a standard 10-year repayment plan. A 10 percent debt burden level is generally acknowledged as manageable, while higher debt-burden percentages are considered a higher default risk. The debt burden percentages below are based on borrower incomes, since borrowers must repay the loans.

REPAYMENT OF MAXIMUM LOAN AMOUNT--10-YEAR REPAYMENT PLAN
Annual Repayment and Debt Burden Levels--**With** and **Without** In-School Subsidy--
By Borrower Income

Income	Ann'l Repymt W/Subsidy	Debt Burden W/Subsidy	Ann'l Repymt W/O Subsidy	Debt Burden W/O Subsidy
$12,000	$2520	21.0%	$2988	24.9%
$20,000	$2520	12.6%	$2988	14.9%
$30,000	$2520	8.4%	$2988	10.0%
$40,000	$2520	6.3%	$2988	7.5%
$50,000	$2520	5.0%	$2988	6.0%

The above table shows that at $20,000 and below, students who borrow the maximum already face excessive debt burdens--above 10 percent--that will rise if the in-school interest subsidy is eliminated. Additionally, most borrowers' incomes are likely to fall in the three lowest income categories during the early parts of their careers, when they repay a large part of their loans, and typically are more likely to default.

IMPACT BY INCOME LEVEL OF SUBSIDY ELIMINATION-- FOR STUDENTS BORROWING AVERAGE LOAN AMOUNT

Question. What will the impact be at each income level for students borrowing the average loan amount each year as an undergraduate?

Answer. **If the interest subsidy were eliminated, interest accrued for a student who borrowed the average each year would total $2,649, increasing the student's total debt from $13,999 to $16,648, and increasing annual repayments by more than 18 percent.**

The following table identifies the debt burden levels that would result, both with and without the in-school interest subsidy.

REPAYMENT OF AVERAGE LOAN AMOUNT BORROWED ANNUALLY

Annual Repayment and Debt Burden Levels--**With** and **Without** In-School Subsidy--

By Borrower Income

Income	Ann'l Repymt W/Subsidy	Debt Burden W/Subsidy	Ann'l Repymt W/O Subsidy	Debt Burden W/O Subsidy
$12,000	$2040	17.0%	$2424	20.2%
$20,000	$2040	10.2%	$2424	12.1%
$30,000	$2040	6.8%	$2424	8.1%
$40,000	$2040	5.1%	$2424	6.1%
$50,000	$2040	4.1%	$2424	4.8%

This table shows that students who borrowed the average each year and then earn $20,000 or less already face relatively high debt burdens. (The median income level for bachelor degree recipients is $20,500.) Taking away the in-school interest subsidy would exacerbate this situation. Additionally, real incomes are declining while debt levels are steadily rising. **Average debt levels are expected to increase 30% during the next four years.** These trends will cause debt burden levels to rise, even if the in-school interest subsidy is retained. Finally, income levels in these tables reflect borrowers' incomes before taxes; consequently they understate debt burden levels.

PROPOSED BUDGET INCREASE FOR GOALS 2000

Question. Mr. Secretary, could you please justify the proposed 86 percent increase for Goals 2000, and explain what we are buying with the huge expansion proposed for this program?

Answer. Most of the proposed increase ($322 million) would go directly to States that have developed their comprehensive reform plans. Of the amount that goes to a single State, 90 percent must go directly to local school districts, which, in turn, must use at least 85 percent for reform activities in individual schools. We think that as many as 16,000 individual schools could be actively participating in 1996.

Following are examples of how some States are planning to use Goals 2000 funds:

- In **Oklahoma**, Goals 2000 funds will help the State carry out recommendations of the Oklahoma Commission for Teacher Preparation to improve the preparation of new teachers in Oklahoma and provide support to those already in the teaching force.
- **Massachusetts** is creating 14 charter schools.
- **Kentucky** is using part of its funds to engage the public and encourage parental involvement in its reform efforts.
- **Oregon** is supporting the Oregon Benchmarks — a citizen-based vision of education for the 21st century, of which the State's School-to-Work effort is also an integral part.
- **Illinois** is building on the Illinois School Accountability Act, State legislation that charges schools with reviewing student performance measures to ascertain whether all students are learning and being served.
- **Kansas** is making a subgrant to the Lawrence School District for strategic planning, development of curriculum aligned to academic outcomes and goals, and staff time to work on developing new teaching skills.

GOALS 2000 AND CHAPTER 2

Question. What is the difference between Goals 2000 and the "Innovative Education Program Strategies" under Title VI, which was formerly Chapter 2?

Answer. Title VI provides general purpose funds that can be used for educational reform but that can be used for almost anything else, so long as the expenditures fall within eight very broad categories: (1) obtaining technology, and training in that technology, related to the implementation of school-based reform; (2) acquiring and using educational materials; (3) educational reform projects, such as "effective schools" and magnet schools; (4) improving educational services for disadvantaged students; (5) combatting illiteracy among children and adults; (6) addressing the educational needs of gifted and talented children; (7) implementing school reform activities consistent with Goals 2000; and (8) implementing the school improvement and parental involvement activities authorized under ESEA Title I.

Studies of this program's predecessor, the "Chapter 2" block grant, showed that funds were spread very thinly within a State. School districts infrequently used program funds for truly reform-oriented activities; instead the program was typically used to purchase curriculum materials and to carry out other routine activities. Like Chapter 2, the Innovative Education Program authority is not well designed to support the types of State and local efforts most likely to result in real improvements in teaching and learning.

Goals 2000 is focused solely on education reform. It provides incentives for States to devise their own strategies for comprehensive school reform that is tied to high standards. Educators, parents, and others in each school work together to determine the steps necessary for the school to take in order for students to reach challenging academic standards. Each of these individual school reforms takes place in the context of local districtwide and statewide reform strategies. Forty-seven States are currently using their Goals 2000 money to develop their reform plans and to support local reform initiatives. Most will begin actual implementation of reform plans with funds appropriated in 1995 and 1996.

Finally, Goals 2000 funds, unlike those under Chapter 2, are intended to be used as "venture capital ," not to create State and local structures and activities that will be dependent upon indefinite Federal support.

GI BILL FOR AMERICA'S WORKERS

Question. Mr. Secretary, President Clinton's GI Bill for America's Workers proposes consolidating several Federal job training programs into a "workforce development system." The 1996 budget for the Pell Grant program reflects its critical role in this proposal. The Pell Grant program would continue to serve students enrolled in degree programs, while current Pell Grant recipients enrolled in non-degree programs would be served by a new Skill Grant program that would be administered by the Department of Labor in partnership with the States and localities.

Mr. Secretary, what consolidation efforts will you pursue in the event that this initiative is not passed?

Answer. The GI Bill for America's Workers is more than simply a program consolidation and shifting of funding responsibilities between Federal agencies. It is a fundamental change in approach to see to it that individuals succeed in getting the skills they need to get better jobs.

The current Pell Grant program is an important ladder into the middle class for millions of Americans. It helps to raise the college participation rates of low-income students. However, for the one-third of the Pell Grant recipients in non-degree programs the current program is not well-integrated with other Federal, state, and local training and job placement services. Pell Grant recipients receive little information on career options and training quality, making them easy targets for unscrupulous training providers. If the Congress fails to act on the President's plan, it will be doing a serious disservice to the over two million Americans who would benefit from the Skill Grant program.

The Administration's GI Bill for America's Workers would combine the current patchwork of Federally funded workforce development programs into one interrelated workforce training system. It addresses the critical need to streamline and consolidate the multitude of education and training programs and offer adult workers and the unemployed a range of choice to gain and improve their job skills.

We are going to continue to fight hard for this proposal. I urge you and the other members of the committee to support it because it embodies the Administration's objectives to:

- Expand opportunity and choice;
- Improve educational quality and accountability; and
- Streamline existing programs and increase State involvement.

Our proposal is the best way to achieve these objectives. However, our commitment does not start and stop with the GI Bill. If the Congress does not act on the President's proposal, we will continue to pursue initiatives that are consistent with these principles.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

COMMUNITY COLLEGE LIAISON

Question. Mr. Secretary, I am pleased to note that a year has gone by since Betty Duvall joined your staff as the Liaison for Community and Junior Colleges. Could you tell me how you have worked with Betty to insure that the interests of community colleges are well-represented and considered within the Department?

Answer. Dr. Betty Duvall and the position of Community College Liaison have been welcomed by the entire higher education community and by community colleges in particular. The position is perceived as a positive step by the Department of Education to focus attention on this important sector of postsecondary education and its role in our systemic reform efforts. We appreciate the pivotal role you have played and your commitment to the community colleges.

The Department has had a year of very intensive interactions with representatives from the community college sector. Their input has been critical in all our new initiatives -- School-to-Work Opportunities, Perkins loans, Adult Education, and student aid, to give a few examples. This is due in no small part to the efforts of the Community College Liaison. This position has afforded us the opportunity to reach out to the community colleges in a highly focused and sustained manner. Through her active participation on key Department committees in such areas as student aid, professional development and teacher education, Betty has also provided the Department with insight on how our program and policy planning can respond to the needs and capability of community colleges.

ACCOMPLISHMENTS OF THE COMMUNITY COLLEGES LIAISON

I would like to highlight a few of our accomplishments resulting from the work of Dr. Duvall. We have asked her to focus strongly on ensuring community colleges' involvement in School-to-Work Opportunities systems. Meetings have been convened with community college representatives from the 8 states that have received Implementation Grants to review and strengthen their involvement in School-to-Work. Betty continues to facilitate the exchange of information between the Department and community colleges across the country, through a range of campus visits, speeches to key organizations and, during this Spring, by delivering several commencement addresses.

There is now a monthly column in the American Association of Community College's *Community College Times*, which is widely read by the community college sector and serves as a direct line of information on Department activities. Through presentations made nationally to community college staff, trustees and student groups, Betty assists us in maintaining that all-important link between the Department and its customers.

Efforts are underway to create greater awareness within the Department about the key role of the community colleges, including the celebration of Community College Month and providing internship opportunities in the Department for community college faculty, staff and students. Betty has recently been highlighted in our Department publication *Inside Ed.* This newsletter is widely circulated throughout the Department and serves as one of our main channels of communication.

Question. Do you have any suggestions as to how this position could be strengthened in the future?

Answer. As the Department continues to go through its process of reinvention, and as we review our organizational structure we will work to ensure that the Department's initiatives continue to respond to the needs of all of our education partners--including community colleges. The community colleges are critical players in the future of education and training in the United States and the Department will continue to work closely with them in building this Nation's workforce.

ELEMENTARY MATH AND SCIENCE EQUIPMENT ACT

Question. Mr. Secretary, as we progress towards achieving National Education Goal #4 -- being first in the world in math and science achievement by the year 2000 -- I believe it is critically important that we provide our educators with the tools necessary to attract our children into the sciences. As part of the ESEA reauthorization process last year, Congress enacted a Federal matching grant program to provide schools with "hands-on" science and math equipment. It is my hope that you view this as a small but important piece to the puzzle of answers necessary to move math and science achievement forward. How do you see equipment enhancement as supporting the achievement of this National Education Goal?

Answer. The availability of the materials and equipment necessary to teach "hands-on" mathematics and science is important, but probably nothing is more important to improving achievement -- once challenging standards and assessments are in place -- than well-prepared teachers with a deep understanding of the content and how to teach it. We have chosen to concentrate our funds on the professional development teachers need throughout their careers. States and local school districts can decide whether to use any of their Goals 2000 or State and local funds for "hands-on" science and mathematics equipment.

DEPARTMENT OF EDUCATION AND OTHER FEDERAL URBAN AND COMMUNITY SERVICE GRANT PROGRAMS

Question. Mr. Secretary, the Urban and Community Grant program has enabled institutions of higher education to work within their local communities on social issues of concern. Similar to the land-grant program, this small amount of Federal funding allows for partnerships between higher education and local communities. Secretary Riley, you propose to zero out funding for the Urban Community Service Grants. Your rationale for eliminating this program is "that urban social and economic problems are more adequately addressed under programs and budgets of other Federal, State and local agencies."

Mr. Secretary, what other Federal programs are currently providing the services that are being addressed by the urban grant program?

Answer. Several Federal programs support activities similar to those currently funded by the Urban Community Service program. Examples of such programs similar to those are:

- Five programs administered by the Department of Housing and Urban Development (HUD), including:
    - The new Community Outreach Partnerships program, which supports partnerships among postsecondary institutions and local community organizations, governments and businesses to address pressing social problems. The Administration requests $7 million in its FY 1996 budget for this program.
    - The Joint Community Development program, which provides grants to State and local governments and postsecondary institutions to support community development activities. The FY 1996 request is $5 million. A separate Joint Community Development Program for Historically Black Colleges and Universities (HBCU's), funded at $8 million in the FY 1996 request, would provide funds for community-university partnerships at HBCUs.
    - The Community Development Work Study program, which provides financial support to economically disadvantaged and minority students to pursue careers in community and economic development. The FY 1996 request is $250,000.
    - The Doctoral Dissertation Research Grant program, which provides financial support to eligible doctoral candidates to complete their research and dissertations on housing and urban development issues. The FY 1996 request is $250,000.
    - The University Partnership Awards which is an unfunded program that recognizes outstanding cooperative efforts among universities and local institutions in the public, private and nonprofit sectors to strengthen communities.
- Empowerment Zones and Enterprise Communities, which are administered by HUD and the Department of Agriculture, and support economic opportunity through job creation and sustainable community development through strategies for achieving lifelong learning, safe streets, and personal, family and civic responsibility.
- The Family and Community Endeavor Schools program administered by HUD and ED, which focuses on crime prevention.
- Americorps, a new National Service Movement that helps young people finance their higher education in exchange for completing direct and demonstrable service activities to meet the education, public safety, human and environmental needs of communities.

SOLVING THE PROBLEMS FACING URBAN COMMUNITIES

Question. Given the wide variety of problems facing urban communities, don't you think we should be doing more rather than less to solve these problems?

Answer. I think that, as a country devoted to the well-being of its citizens, we need to make every effort possible to confront the problems faced by urban communities. However, particularly in a time of fiscal constraints, we must make every effort to do so as efficiently as possible. Duplicative programs, such as the Urban Community Service program, require administrative support that limits the effectiveness of its funding. Also, I believe that the Department of Education is more effective in addressing its primary goal--the education of America's citizenry--than is the issues of housing, crime or economic development.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

BYRD HONORS SCHOLARSHIP PROGRAM BENEFICIARIES

Question. Mr. Secretary, I have serious concerns about the recent action of the House to rescind $9,823,000 for the Robert C. Byrd Honors Scholarship program, as part of H.R. 1158, legislation making emergency supplemental appropriations for additional disaster assistance and rescissions for Fiscal Year 1995.

The scholarship program was first established as a national, 1-year scholarship program recognizing merit in 1985. Later, in 1986, I was most honored when the program was named for me at the suggestion of my colleague Senator Stevens. Beginning with the 1993-94 year, as a result of the Higher Education Act Amendments enacted in 1992, the Robert C. Byrd Honors Scholarship program was changed from a 1-year scholarship to a 4-year program. To accommodate this expansion, incremental funding has been provided since FY 1993. The $9,823,000 included in the House rescission bill is an increase above the 1994 level, and is necessary to permit the program to support a new cohort of first-year students in 1995, and continuation awards for 1994 and 1993 cohorts of students in their second and third year of study, respectively.

How many students, since the inception of the program, have benefitted from this scholarship?

Answer. Since the inception of the Byrd program in 1987, approximately 50,600 students have received Byrd scholarships.

IMPACT OF PROPOSED BYRD HONORS SCHOLARSHIPS RESCISSION

Question. The House rescission bill cites that "the Committee's action will not affect the over 19,000 continuing Byrd scholarships." Please provide me your assessment of the impact of the House Committee's actions on these students.

Answer. The House proposal to rescind $9,823,000 of the FY 1995 Byrd appropriation would require the Department to restrict support to 12,863 continuing scholars who would receive scholarships of $1,500 in academic year 1995-96. (The "over 19,000" figure is not correct; it reflects the projected number of continuing scholars in FY 1996 assuming no rescission in FY 1995 and the Administration's requested level in FY 1996.) Under the House proposal, only two cohorts of continuing scholars (12,863 students) would receive support for their third and second years of postsecondary education, respectively. No new cohort of scholars (i.e., the academic year 1995-96 first-year students) would receive funding. It would not be possible to reduce the scholarship amount to three cohorts of scholars because the statute specifically sets the scholarship level at $1,500.

Question. Would you please advise me how many students would be denied the opportunity to apply for this scholarship assistance in 1995, if the rescission is implemented?

Answer. If the House rescission proposal is implemented, an estimated 6,548 new, first-year students would not receive Byrd Scholarships in FY 1995.

DISTRIBUTION SCHEDULE OF BYRD SCHOLARSHIPS INFORMATION

Question. Has information about the scholarship already been distributed in high schools for students who would want to apply for the scholarship this spring?

Answer. The Byrd Honors Scholarship program is administered by the individual participating States. Each State has its own schedule of distributing information to high schools and when applications are due to the States. In general, States have distributed information to high schools in the Fall, 1994 for scholarships to be awarded in the Spring/Summer of 1995.

EXPANDING BYRD HONORS SCHOLARSHIPS TO A 4-YEAR SCHOLARSHIP PROGRAM

Question. The FY 1996 President's budget includes additional incremental funding for the Byrd Scholarship program that will enable the program to fully sustain a 4-year scholarship program, which was authorized in the Higher Education Act Amendments in 1992. Please describe the impact that this proposed rescission would have on the Congressional intent to transform this program from 1 to 4 years.

Answer. The rescission proposed by the House, would, if implemented, have a detrimental impact on the Congressional intent to expand the Byrd Honors Scholarship program from 1 to 4 years. There would be no scholarships for new scholars in FY 1995, thus eliminating the opportunity for 4 years of financial assistance for a new cohort of approximately 6,600 program participants. Instead, only two cohorts of scholars would be supported from that year forward. Congressional intent to transform the Byrd program from providing 1 year to 4 years of support would not be met.

Question. As the Secretary of Education, do you think that there are enough scholarship opportunities available to help our young people attend college?

Answer. The primary role of the Federal Government in the area of student aid is to provide the need-based assistance that ensures that all students have excess to postsecondary education. We are meeting this goal though our Federal student financial aid programs--particularly Pell Grants and student loans--that will provide almost $36 billion in aid to students in FY 1996. In general, I believe that merit-based scholarship programs are more properly the province of institutions of postsecondary education and State governments. However, I want to emphasize that the Byrd Honors Scholarship plays an important role in demonstrating our national commitment to rewarding high academic achievement at the high school level. It should be expanded to four undergraduate student cohorts, beginning with fiscal year 1996, and not limited to only two student cohorts under the proposed 1995 rescission.

BENEFITS OF PROVIDING SCHOLASTIC SCHOLARSHIPS

Question. Against the current background of increasing competition from students and businesses abroad, do you agree that there is some benefit to providing scholarships that encourage scholastic success to students in our own country?

Answer. Yes, absolutely. As a result of current economic trends and technological advances, the American workforce of the future will need to be highly trained if this country is to enjoy continued economic growth. To be competitive in the world economy, all Americans must have the opportunity to graduate from high school and have access and opportunity to participate in a broad array of postsecondary education options. Since the scholarship programs--Federal, State and institutional--assist in achieving this goal, a benefit is realized in providing scholarships to students.

Question. How many other government-sponsored scholarship programs based solely on scholastic excellence currently exist? If there are any, please list them.

Answer. As indicated above, States and institutions are a more appropriate source of scholarship aid. The Department of Education focuses on providing need-based financial assistance to promote student access to higher education. To the best of our knowledge, the Byrd Honors Scholarship is the only Government-sponsored scholarship program at the baccalaureate level that is based solely on general scholastic excellence and does not require post-award service obligations.

QUESTIONS SUBMITTED BY SENATOR HERBERT KOHL

STUDENT COUNSELING AND ASSISTANCE NETWORK

Question. As student financial aid programs are threatened with painful cuts, it seems particularly important that students are able to access all existing funds. To that end, I supported the creation of the Student Counseling and Assistance Network, SCAN, which would make widely available, through a computer database, information about existing public and private sources of funding for higher education. However, I see that continued funding for the database has not been requested. Furthermore, the House is about to rescind the $500,000 appropriated in fiscal year 1995.

While I appreciate the funding constraints the Department faces, this is a very small amount of money, and the need which SCAN was meant to address has increased. That said, maybe we need to come up with a less expensive alternative to designing an entirely new database; possibly by taking advantage of private sector services which could be modified and broadened to meet our original goal. Is this an option which the Department is willing to explore?

Answer. The Department has contracted for a feasibility and design study that is exploring options either to build a new data base containing financial aid information, or alternatively to acquire an existing data base that can be adapted to meet the goals established for SCAN. These goals include providing a service that is free, comprehensive and current, widely accessible, and available to all students and families, including students with disabilities. The feasibility study, currently in progress, draws on interviews and meetings with potential users, identifies needs, and establishes specific requirements for an adequate service. The study will also evaluate the qualities of seven existing computerized financial aid services (both on-line and stand-alone). This study will be delivered at the end of April, and information contained in it will assist in evaluating the various options.

Question. If we eliminate funding for SCAN, how do you propose that the Department address the serious need to inform students about available financial aid resources.

Answer. The Department currently has a toll-free telephone number (1-800-4-FEDAID) and a student guide which provides information about the availability of student financial assistance. In addition, the TRIO programs provide services that include information on and assistance in obtaining financial aid for program participants--disadvantaged students.

DROPOUT PREVENTION PROGRAMS

Question. One of the targets set in the Goals 2000 legislation which we passed last year was increased high school graduation rates. And yet, the Department has proposed no new funding for the Dropout Prevention Assistance program, and in fact, has requested that the fiscal year 1995 appropriation of $28 million be rescinded. I realize that you are requesting more money for Goals 2000, but many worthy reform efforts will be competing for these limited funds.

I am impressed with the results of the Dropout Prevention program which is operating in Milwaukee, and am interested in the Department's overall assessment of these programs. Since these programs have demonstrated success, why has the Department proposed no further funding specifically for such efforts?

Answer. The Department proposes no further funding for the Dropout Prevention Assistance because the program was only intended to be a short-term demonstration to test and evaluate successful strategies to combat the dropout problem -- not to be a long-term, direct service program continuing in perpetuity. Fiscal year 1994 funds are supporting the final planned year of 3- and 4-year projects. These projects are undergoing rigorous evaluation to test and demonstrate strategies that school districts can use to combat the dropout problem. Strategies identified by these projects can then be adopted by local educational agencies using State and local funds, as well as Federal funds from Title I and other programs. In fact, the reauthorized Title I program, with its greater emphasis on supporting secondary school programs and reforms, now has the capacity to accomplish much more in dropout prevention than does this small categorical activity. Indeed, virtually all ED programs (e.g., Goals 2000, Safe and Drug-Free Schools, Vocational Education, Individuals with Disabilities Education Act, and TRIO) contribute directly or indirectly to the goal of keeping students in school.

DIRECT LENDING

Question. I would like to turn for a moment to one of the recent proposals to rescind funding from the Department of Education. The House has suggested rescinding $47 million of the $345 million (15%) appropriated for the administration of the Direct Lending Program. This program has the potential to save taxpayers billions of dollars. I have heard from college administrators in Wisconsin who are very pleased with the current implementation of this program. Do you believe this cut could be absorbed without harming the quality of the administration of Direct Lending?

Answer. In the short term, the Department anticipates no immediate impact on Direct Student Loan implementation or outlays in 1995 because the Student Loan Reform Act (SLRA) provides for carryover of funds from prior unused balances. This carryover feature provides for flexibility in budgeting for administrative costs. In addition to the $345 million specifically available for Direct Student Loan administration in 1995, an additional $95 million is available from unused balances from 1994 as authorized by the SLRA. The $95 million was unused in 1994 due in part to late billings for administrative expense allowances by the guaranty agencies. The Department plans to use about $48 million of the carryover funds during 1995. The remaining $47 million would be carried over until 1997.

Although the SLRA allows future year administrative funds to be used to meet current needs, the rescission of $47 million would cause a long-term problem at the school and Department level by eliminating funds needed by 1997 to implement the Direct Loan program effectively and prevent problems during the transition from Federal Family Education Loans. Because the greatest portion of the administrative costs are required for loan servicing, a rescission of this amount would principally affect the Department's ability to make improvements in the automated data processing systems to enhance and simplify customer service, loan collections, and student tracking.

STATE STUDENT INCENTIVE GRANTS--PROPOSED ELIMINATION

Question. The Department has proposed cutting funding for State Student Incentive Grants from $63 million to $31 million. Last year, the Department wanted to eliminate this program, and the current House rescission package may do just that. I am disturbed by the trend toward eliminating this program which offers much needed grant assistance to low-income students. Every Federal dollar spent on this program guarantees at least one dollar of state matching funds; last year our small investment generated almost $2 billion in grant aid.

I have heard the argument that this program has now taken hold in States and the Federal portion is negligible. However, as you are aware, States are strapped for cash and could turn to this program for savings. How can we be sure that without the Federal seed money, States will maintain their contributions?

Answer. The SSIG program has achieved its purpose of establishing need-based State grant programs in every State and the Territories. We have therefore proposed to phase-out this program by 1997. States aren't the only ones strapped for cash -- so is the Federal government -- and when a Federal program finally achieves its objective, there comes a time to declare victory, move on, and tackle other problems. That time has come for SSIG.

I must challenge the statement that our small investment generates almost $2 billion in grant aid. I would argue that State support of need-based grant programs now depends on factors independent of the existence of Federal matching funds. In fact, States overmatch the Federal contributions in the program by over 10 to 1, with about one-fourth of the States overmatching the program by over 40 percent. According to one recent study, States have historically been far more likely to increase or maintain their State commitment than decrease funding even though Federal funding decreased or stayed unchanged.

PHASE-OUT PLANNED FOR SSIG PROGRAM TO EASE TRANSITION

Obviously, we don't want to lose the ground that we've gained through the success of the SSIG program. We want to continue to move forward -- not backwards. Therefore, we've proposed to phase-out the program over two years to give the States time to plan for the elimination of the Federal contribution. We don't support the action taken by the House Republicans in rescinding the 1995 funding for this program. States simply can't act quickly enough to deal with that kind of change this late in the game, and that means that students won't get the money that they were counting on for the upcoming school year.

No Federal official can guarantee that States will continue to maintain their funding of need-based grant programs because State support is dependent on many more factors than on the Federal SSIG contributions. Support of student aid programs and of higher education have been under attack by right-wing Republicans at both the Federal and State level. I believe that the consequences for the nation's economy of these proposals are quite serious. Postsecondary education has fueled economic growth in our country since the end of World War II -- starting with the GI Bill and continuing with the Higher Education Act.

But I feel confident that good sense and the will of the American people will prevail and State support for these important investments will be maintained. According to a recent national poll, 89 percent of the survey respondents believe that it is important for the government to fund student financial aid, second only to Social Security. Judging by the hundreds of rallies, demonstrations, and grass-roots activism that have been taking place all around the country, I think that the people are letting their will be known.

SUBCOMMITTEE RECESS

Senator SPECTER. The subcommittee will stand in recess to reconvene at 2 p.m., Thursday, May 18 in room SD–138. At that time we will hear testimony from Dr. Varmus, Director of the National Institutes of Health.

[Whereupon, at 3:30 p.m., Thursday, March 16, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, May 18.]

DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

THURSDAY, MAY 18, 1995

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Arlen Specter (chairman) presiding.

Present: Senators Specter, Hatfield, Mack, Harkin, and Kohl.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

NATIONAL INSTITUTES OF HEALTH

STATEMENT OF HAROLD VARMUS, DIRECTOR, NATIONAL INSTITUTES OF HEALTH

ACCOMPANIED BY:

- **DR. RUTH KIRSCHSTEIN, DEPUTY DIRECTOR, NIH**
- **DR. WILLIAM PAUL, ASSOCIATE DIRECTOR FOR AIDS RESEARCH**
- **DR. JOHN GALLIN, DIRECTOR CLINICAL CENTER**
- **DR. EDWARD SONDIK, ACTING DIRECTOR, NATIONAL CANCER INSTITUTE**
- **DR. CLAUDE LENFANT, DIRECTOR, NATIONAL HEART, LUNG AND BLOOD INSTITUTE**
- **DR. DUSHANKA KLEINMAN, ACTING DIRECTOR, NATIONAL INSTITUTE OF DENTAL RESEARCH**
- **DR. PHIL GORDEN, DIRECTOR, NATIONAL INSTITUTE OF DIABETES AND DIGESTIVE AND KIDNEY DISEASES**
- **DR. ZACH HALL, DIRECTOR, NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE**
- **DR. JOHN J. McGOWAN, ACTING DEPUTY DIRECTOR, NATIONAL INSTITUTE OF ALLERGY AND INFECTIOUS DISEASES**
- **DR. MARVIN CASSMAN, ACTING DIRECTOR, NATIONAL INSTITUTE OF GENERAL MEDICINE SCIENCES**
- **DR. DUANE ALEXANDER, DIRECTOR, NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT**
- **DR. CARL KUPFER, DIRECTOR, NATIONAL EYE INSTITUTE**
- **DR. KENNETH OLDEN, DIRECTOR, NATIONAL INSTITUTE OF ENVIRONMENTAL HEALTH SCIENCES**
- **DR. RICHARD HODES, DIRECTOR, NATIONAL INSTITUTE ON AGING**
- **DR. MICHAEL LOCHSHIN, ACTING DIRECTOR, NATIONAL INSTITUTE OF ARTHRITIS AND MUSCULOSKELETAL AND SKIN DISEASES**

DR. JIM SNOW, DIRECTOR, NATIONAL INSTITUTE OF DEAFNESS AND OTHER COMMUNICATIONS DISORDERS

DR. PATRICIA GRADY, DIRECTOR, NATIONAL INSTITUTE OF NURSING RESEARCH

DR. ENOCH GORDIS, DIRECTOR, NATIONAL INSTITUTE ON ALCOHOL ABUSE AND ALCOHOLISM

DR. ALAN LESHNER, DIRECTOR, NATIONAL INSTITUTE ON DRUG ABUSE

DR. REX COWDRY, DIRECTOR, NATIONAL INSTITUTE OF MENTAL HEALTH

DR. JUDITH VAITUKAITIS, DIRECTOR, NATIONAL CENTER FOR RESEARCH RESOURCES

DR. FRANCIS COLLINS, DIRECTOR, NATIONAL CENTER FOR HUMAN GENOME RESEARCH

DR. PHILIP SCHAMBRA, DIRECTOR, FOGARTY INTERNATIONAL CENTER

DR. DONALD LINDBERG, DIRECTOR, NATIONAL LIBRARY OF MEDICINE

OPENING REMARKS OF SENATOR ARLEN SPECTER

Senator SPECTER. The Appropriations Subcommittee on Labor, Health and Human Services, and Education is continuing hearings for fiscal year 1996 on the appropriations request this afternoon.

We have been delayed, as Senator Hatfield, Senator Mack, Senator Harkin, and I were conferring earlier about what response there should be to the budget resolution, because of our concern on the proposed reductions.

NIH, as we all know, is charged with a very formidable task, improving and safeguarding the health of the people of this Nation.

The funds provided to your agency will continue the progress being made of identifying new treatments and supporting promising avenues of research for diseases such as cancer, AIDS, Alzheimer's disease, mental illness, arthritis, as well as many other illnesses.

The President's fiscal year 1996 budget request is $11.8 billion for the National Institutes of Health, compared to the fiscal year 1995 appropriation of $11.3 billion. This represents $468 million, or a 4-percent increase over the fiscal year 1995 appropriations, just enough to keep pace with the biomedical-inflation rate.

As we all know, both the House and the Senate budget resolutions currently propose major reductions for NIH, as much as $7.7 billion through the year 2002. Such reductions obviously threaten the promising advances made in finding the causes and cures of many diseases which threaten the people of this Nation.

The pie chart displayed on the podium shows total spending on medical and related research, and how that research has increased from $10.8 billion in 1983, to $30.8 billion in 1993.

NIH spending has decreased as a percentage of the total, from 38 percent in 1983, to 32 percent in 1993, while private industry share has increased from 39 to 50 percent in the same 10-year span.

The budgeting for NIH has consistently been safeguarded and increased in the 14½ years that I have been in the Senate.

The distinguished chairman of the full committee has been very zealous in his support for NIH, and a series of subcommittee chairmen, then Senator Weicker, then Senator Chiles, since, Senator Harkin, and now I, have taken the seat of the chairman in a very, very difficult year, but I can tell you that there is determination to maintain an adequate funding level for NIH, and not to have the proposed budget resolutions come into effect.

And as I say, we were discussing that, which caused us being somewhat late for the start of this subcommittee hearing.

I would defer to Senator Hatfield, which I earlier did, but I know he would decline, so instead I will yield to my ranking member—I do not think there is any use in yielding to Mark.

Mark, will you take the chair next? Senator Harkin?

Senator HARKIN. I will be glad to yield to the full chairman of the committee.

Senator SPECTER. I started out that way earlier, Tom, and to no avail.

OPENING REMARKS OF SENATOR TOM HARKIN

Senator HARKIN. All right. Thank you very much, Mr. Chairman.

It is a pleasure to welcome Dr. Harold Varmus, the Director of the National Institute of Health, the other Directors of the various Institutes and Centers, and the Division Directors also here today.

I know it does not need to be said for the record, we all know Dr. Varmus' background, but I think, again, we want to point out just how lucky we are to have Dr. Varmus here after a distinguished record as a bench scientist, the first Nobel laureate to ever serve as Director of the NIH, and to once again state for the record how proud we are of all of you who are sitting around the table for the tremendous work that you do at NIH in your various capacities, as I said, as the Directors of the Institutes, or the Centers, or Divisions.

You have been operating under some very difficult circumstances in the last few years, and yet you continue to make significant progress, and continue to make us proud of what I have long considered to be the premiere health research institute in the world today.

It is because of my belief that NIH has been the pathfinder for the rest of the world in basic biomedical research that we cannot at this time afford to back off on our support.

The President's budget, as the chairman said, continues to include NIH on its investment priorities. I was proud to see that, and glad to see that the President continued the NIH in his investment priorities.

The President's budget recommended a modest increase in fiscal year 1996, 4.1 percent, for a total of $11.8 billion. It would keep the NIH budget from losing ground to inflation. But unfortunately, the administration's long-run plans would cause NIH to lose ground for the period from 1997, through the year 2000.

By the year 2000, the budget recommends a 9 percent or slightly less than a $1 billion reduction from the level proposed for fiscal year 1996.

Senators Hatfield, Specter, and I wrote to Dr. Varmus earlier, expressing our concern about these budget projections. We asked for specifics on the impact of these cuts on priority research programs, such as breast cancer, and AIDS, and the human genome project.

It is imperative, Dr. Varmus, that we have the facts on the impact of the cuts on the NIH budget, from you and from the other directors that I might direct questions to later on.

What is the impact of those cuts, especially in light of the recent action of the House and Senate Budget Committees? The full House and Senate will now be debating the budget. We picked up ours today, and I guess the House may even be finishing theirs yet today.

The assumption for NIH in those budgets, I say, range from bad to worse. Overall assumptions for reduction may preclude this subcommittee from providing even the lowest funding level assumed for NIH.

The House budget assumes a 5-percent cut next year, and then for the next 6 years, it will be frozen, with no adjustment for inflation.

The Senate resolution is even tougher. It is a 10-percent cut next year, and then frozen thereafter. I believe this will do irreparable harm to our Nation's investment in basic medical research, at a time when there is an explosion of new discoveries, new knowledge, when we are just on the brink of making major, major finds, especially in the whole genetics field. This is not the time to back off. This is not the time to pull the plug.

This is not the time to reduce even further the extramural grants that are going out to researchers around the country, and to send the message out there to young researchers that you might as well do something else.

If you are only going to get 1 out of 10 research grants funded or maybe even less than that, you may as well forget about research as a field to enter into.

And also at the same time that we are on the brink of these explosions and discoveries, we are in an explosion of health care expenditures.

If I have said it once, I have said it a hundred times, and I am going to say it again, if all we are going to do is try to rearrange Medicare, Medicaid, who pays, who is in, and who is out, and how we shuffle it around, if that is all we are going to do, we are just rearranging the deck chairs on the *Titanic,* because we are going to go down. Alzheimers alone is going to bust the bank.

If we really want to truly save money in the health care system of this country, we have to invest it up front in medical research, to find the cures, and the interventions for those illnesses and diseases that plague us. As I said, "the past can be prolog."

What we have done in the past, the investments we have made, has not only made our lives better, it has saved us countless billions of dollars. And this is where we should be putting our money, and we cannot afford to back off.

Again, Dr. Varmus, I look forward to your statement and your response, and we need the hard facts on just what is going to happen to your Institutes if this budget gets passed, and we have to live with later on this year.

Thank you.

Thank you very much, Mr. Chairman.

Senator SPECTER. Thank you very much, Senator Harkin.

Senator Hatfield.

OPENING REMARKS OF SENATOR MARK O. HATFIELD

Senator **Hatfield.** Mr. Chairman, I would like to take this occasion to not only welcome Dr. Varmus, but all of his very distinguished colleagues, representing all the Institutes. It is a great honor to know most of the directors.

I just see them all arrayed here before us, and realize that they but represent a small tip of the iceberg of probably, the most distinguished collection grouping of scientists committed in warfare against disease the world has ever known. I think it is an awesome sight.

I only want to say, Dr. Varmus, and to your associates, that we have had some communication on this matter. Senator Harkin has just immediately expressed some concerns about the impacts.

Senator Specter, our chairman, has also expressed them. I know that Senator Mack, representing all the members of this committee really, is concerned about these impacts.

I said earlier this morning at a hearing related to Secretary Christopher of the State Department, in which the foreign assistance is a very key issue at hand, that we are all committed to the horrendous problem we face in our deficit.

I do not think you will find much variance on our commitment, but at the same time, in achieving the goal of a balanced budget.

I said to Secretary Christopher, we have to know what the world will look like, not just the United States, but the world. I think the same is true here, because we are dealing in global issues, not just problems that are facing the people of this country.

I repeat, I think we have to look in our effort to achieve our goal we are all committed to, what the rest of the world will look like, including our own people.

I am not going to be able to stay. I have some meetings with some other groups that are deeply concerned about other aspects of this appropriations process. I will read carefully your answers to questions that will be posed by my colleagues, and I want to assure you that we are in the process—I have been meeting with colleagues today.

Our staffs have been in deep conference about how we are going to correct the horrendous prescription to disaster, if we should follow the instructions that have appeared in our budget resolution, no less committed to the problem that is so gigantic, and no criticism to the budget committee people, especially to our chairman, Senator Domenici, that we want to work with them to find another way to achieve those savings that they think they are achieving in the billion dollar reduction for the NIH, for fiscal year 1996, and to be able to restore at least a major part of that amount.

We may fail, but we are going to die with our boots on, if we do fail.

I want to also say that I am anxious to hear your judgment, not only on the Senate budget, but let us not forget that the Democratic President of the United States and a Democratic administration has proposed merely a delay in that $1 billion cut from NIH, to take place between 1997 and 2000.

So this is not just a Republican congressional problem in the budget resolution. The same prescription has started at the White

House, and we want to work with the administration as well in correcting this, what I think is a prescription for disaster.

I would only close my opening comments by saying we had experienced some rather interesting similarities in my State of Oregon in the timber industry, and there are 80-some villages, and any and every sawmill, which is certainly a far different level of technology than NIH. It takes time to assemble a skilled crew to make that mill work, from a sawer, to those on the green chain, and I could go through all of the other skills, when that mill shuts down for a month, and those people leave to try to find employment elsewhere, it takes them at least another 3 months to crank it up to reassemble a skilled crew. I draw this only as an analogy.

When I think that the decade of the brain, which we are now 5 years into, and that amount of those 5 years it took to assemble the 130-plus extraordinary scientists to even be able to collect the data, and find a way to correlate our mission, if we lost this momentum that we have now gained against Alzheimer, against Parkinson, so forth and so on, all the diseases, we are not going to reassemble that kind of a skilled team we see assembled today.

So I would like to get your view as to whether the postponement of that kind of a guillotine budgetary action by the administration does not pose the same problem that we are facing more immediate, in terms of the Senate budget resolution, or the House budget resolution, that has a 5-percent reduction.

So in that context, I want to say I am so grateful to be on a committee of this kind, with the quality and the commitment of my colleagues, for the cause of medical health.

Senator SPECTER. Thank you very much, Senator Hatfield.

Senator Mack.

OPENING REMARKS OF SENATOR CONNIE MACK

Senator MACK. Thank you, Mr. Chairman. I will not belabor the point, but I think it is important that I make a comment or two.

We all are beginning to work our way through the budget proposals and we have heard the various assumptions as to what this could do.

But I think it is important that we stress that the final decisions, frankly, with respect to the funds that will be available to the National Institutes of Health will come from this committee.

It is fair to say that people refer to me as a fiscal conservative, and I am proud of that, but I am also proud about the commitment that I have to medical research.

I have met with Dr. Varmus, I have met with several of you and have worked with you over the last few years. I am committed to seeing that the fears that you have right now do not come to reality.

I think it is important, the fight that we are engaged in, and I am excited almost day by day when I read of the advances, and the achievements, and the accomplishments that you have brought forth to this Nation.

On a very personal note, I am alive today, my wife is alive today, my daughter is alive today, and my mother is alive today because of the research that people like you and others around our country have pioneered.

And I am committed to seeing that my children and their grandchildren have the opportunity to experience a full life, because this country and this committee made the commitment to the level of research dollars that are necessary to allow you to continue your work.

So I look forward to not only working with you, Dr. Varmus, and all of your associates, but working with this committee as well to find those dollars.

Senator SPECTER. Thank you very much, Senator Mack.

It is really an extraordinary group which is assembled here today. I would like to give you notice that after Dr. Varmus testifies, it is my intention to go around the room for every director who is here, and ask a question about what you are looking to accomplish in the course of the next 1, 2, or 3 years, and what the impact would be of the kind ot the proposed 10-percent cut, if that were to occur. I will give you that much notice.

Dr. Varmus, the floor is yours.

SUMMARY STATEMENT OF DR. HAROLD VARMUS

Dr. VARMUS. Thank you, Mr. Chairman. Time forbids my introducing all the colleagues with me, but let me at least introduce my Deputy Director, Ruth Kirschstein.

It is a particular pleasure for me to bring the President's budget to this committee. Your support over the years has not only been deep, it has been passionate. We like to think of the triad of the chairmen who serve on this committee as being our HHS within the Congress—Harkin, Hatfield, and Specter. We appreciate very much the power of persuasion that you bring to the table to discuss these issues. Senator Mack, you are perhaps not a chairman, but your passion on this topic is also very much appreciated by all of us.

You have already outlined the President's proposal. Briefly, the President proposes to increase the NIH budget by about the inflationary rate, 4.1 percent, or $467 million over the 1995 appropriations, to keep pace with inflation, and allow us to continue to make progress in a variety of fields.

That proposal also emphasizes a number of the administration's goals: to work, in particular, on breast cancer, AIDS, health of women and minorities, tuberculosis, and high-performance computing.

The request, in addition, highlights scientific opportunities identified by NIH, opportunities that no doubt you will hear emphasized by my colleagues when we go around the table in response to Senator Specter's proposal.

These include converting recent discoveries in neuroscience, cell biology, and genetics, into substantial advances against diseases of the brain, the reproductive system, connective tissues, and several forms of cancer:

—Opportunities to prevent disease, through a better understanding of infectious agents, such as the Ebola agent and others, through immunization, through changes in behavior, that allow our children to get access to the vaccine that we have made opportunities to develop novel therapies, based on accomplishments in basic research, the delivery of genes to ailing cells, and drug design that is promoted by our deeper understanding of molecular structures;

—New opportunities to invest in our infrastructure, through shared instrumentation, DNA sequencing technology, and a limited physical construction program; and

—Opportunities to improve the efficiency of our research and administrative operations through streamlining and a modern communication infrastructure.

This request reflects the commitment of the President and Secretary Shalala to fundamental research and human welfare, and it also embodies their conviction that an investment in biomedical science yields large dividends to the health of the Nation, to its economy, and to its cultural values.

I bring this budget to you in unusual times. The administration and the Congress are attempting to control budget deficits and the national debt through restrictions on Federal spending and the size of Federal agencies. These strictures demand that agencies like ours justify their budgetary requests in very powerful and unusual ways.

I believe that NIH is particularly well-suited to do this. I base this belief on a number of important factors: our long history of scientific accomplishment and progress against disease; the diverse economic benefits of our research, which I will detail for you in just a moment; the stringent review mechanisms that we use which force us to set priorities in all disciplines in every year; the international stature of the NIH, which makes biomedical research one of those arenas in which America is undisputedly a leader in the world; the education and training programs that we use to attract people into science; and then, of course, the popularity of our major goal, which is to improve human health through scientific research.

Let me say a word or two about the economic benefits of our work, because they warrant special mention, in view of Government debates about the support of research and the investment that that research provides.

First, our research programs directly create skilled jobs, both in NIH-supported laboratories and in the many U.S. companies that provide the materials and instruments used in research.

Second, we help to maintain the vitality of America's colleges and universities. These are among our most valued assets as a nation. Their well-being has consequences in many fields required for leadership in science, and technology.

Third, the knowledge generated by our research is essential for many of our most important businesses and technological enterprises.

Now, these effects are most well-known in the area of biotechnology and in the pharmaceutical industry, which depend upon the discoveries that are made in basic biomedical science to develop drugs and other products.

But it is less widely appreciated that NIH-initiated research has profound influences in many other fields than health, for example, in medical forensics, where DNA typing is now commonly used to identify suspects; in agriculture, where genetically altered plants and animals are improving yields, cutting costs, and extending the shelf life of common foods; in manufacturing, where genetically engineered enzymes are revolutionizing the production of many chemicals; in the environmental sciences, where modified bacteria and biophysical methods are inexpensively restoring soil and water to their natural states after industrial contamination.

NIH also produces major economic benefits when it helps to prevent, control, or reverse disease. The Nation's expenditures for health care have risen dramatically over the past decade. That is largely for reasons unrelated to NIH-based research, and the savings provided by our discoveries are often overlooked.

Many advances reduce expensive hospitalizations, eliminate the need for costly procedures, and increase the productivity of our citizens. I think you will hear, as we go around the table, many examples from Institute and Center Directors.

I would like to provide you with a few examples of how our research benefits the Nation both economically and with respect to our national health. Let me give you a few historical examples, just to illustrate the potential economic power of what we do.

Psychoactive drugs, drugs used for treatment of manic-depressive and schizophrenia illnesses, drastically reduce hospitalization for mental illness, and save the country over $7 billion every year. In addition, they allow patients to return to productive lives.

Fluoridation alone saves the country approximately $4.3 billion every year, by preventing dental caries.

Vaccines provide enormous savings by prevention of a number of infectious diseases.

There are also many more recent examples. For example, the discovery of helicobacter pylori, a bacterial cause of gastric ulcers, allows a cheaper and more effective therapy for gastric ulcers that will save the country $400 million every year.

A new vaccine against hemophilus influenza type B will save the Nation another $400 million a year by preventing meningitis and consequent mental retardation.

The control of blood lipid levels and other preventive measures have already reduced the death rate from cardiovascular disease and stroke, and will continue to reduce hospitalizations for such diseases and improve the health of our citizens.

These successes are the traditional part of the NIH. They have paid for the investment in our agency several times over. But we are especially proud of our agency's ability to return to this committee every year with new successes. Let me just give you a few from the past year, from a substantially longer list.

The long-sought gene for hereditary breast cancer, BRCA–1, has been isolated, as have genes that predispose patients to colon cancer, melanoma, kidney cancer, and other cancers. These discoveries presage a revolution in cancer risk assessment.

Second, a simple drug, hydroxyurea, one already in the public domain, has been shown in this week's issue of the New England Journal of Medicine, to reduce hospitalizations for sickle cell crises by a factor of two, saving the country tremendous expenditures for hospitalization, and saving patients with sickle cell disease from extraordinary pain and suffering.

Naltrexone is the first drug in many years to help in the treatment of alcoholism. We have a new acellular vaccine for whooping cough that is not only effective, but safe. Ocular implants of the drug gancyclovir are cheap and effective means to prevent blindness from cytomegalovirus infections in AIDS patients.

We heard this morning from Dr. Judah Folkman, at Harvard Medical School, about a naturally occurring peptide, which inhibits metastatic growth of tumor cells, and offers a new strategy for cancer therapy.

The so-called obesity gene, which governs appetite, has recently been discovered, and offers tremendous opportunity for controlling obesity in our population. The antiviral drug, AZT, has been shown to prevent transmission of HIV from infected women to their offspring.

There are many other advances that I will not have time to mention in basic science that portend important new advances that will affect our clinical care.

Let me say a word about the tempo of research. A few months ago a panel of six Nobel laureates appeared before the counterpart of this committee in the House of Representatives to testify about their personal history of scientific insight.

Each of these six individuals talked about how over the course of decades each of their discoveries had advanced our understanding of cancer, of the immune system, heart disease, the brain, or the human genome, and how some of those discoveries have contributed directly to the Nation's health through transplantation surgery, through biotechnology, or through drug development.

The stories told by these laureates were useful reminders of the deliberate tempo of biomedical progress, and of the collaborative efforts required to convert discoveries to practical benefit.

Thus, when we think about the advances that have occurred this year, we can see them either as a clinical development, with a rich history of NIH-supported science behind it, or as a fundamental discovery that may have a complex future of clinical application before it.

I just want to mention one or two of the examples that the House committee heard. The House committee heard from Michael Brown, at the University of Texas, about pharmacological studies of drugs known to lower cholesterol levels.

These drugs have now been shown to reduce mortality by more than 40 percent in patients with preexisting coronary artery disease.

Now, these drugs could be developed by private industry only after the NIH-supported scientists had established that blood cholesterol levels are strong predictors of heart disease, discovered the pathways for the synthesis and transport of cholesterol, and pinpointed an appropriate enzyme that could be used as a target for drug action.

Another example: a few months ago AIDS researchers were heartened by evidence that the so-called protease inhibitors appear to be the most effective and least toxic drugs yet available to combat HIV. These enzymes serve as targets for these drugs.

Senator SPECTER. Dr. Varmus, could you summarize the balance?

Dr. VARMUS. Yes.

Senator SPECTER. Because we want to hear from others as well.

Dr. VARMUS. This example, again, shows the importance of basic NIH-supported research on the opportunities for the drug industry to develop drugs.

Let me conclude by commenting on our commitment to the future. We are in the midst of a revolution in biological research, and the budget that the President has brought to you reflects our enthusiasm and his for these fields.

But at the same time, we have to recognize that the prospects for generating new knowledge are threatened by the Nation's financial straits, by deterioration of the scientific infrastructure, and by tensions within the scientific community for competition for support.

PREPARED STATEMENT

Our future success depends on support that you have traditionally given us to allow us to train our scientists, to provide a vibrant network of university and government laboratories, and to allow our pharmaceutical and biotech industries to be innovative.

The administration has made such a commitment, and we ask that you provide your traditional bipartisan support for it.

Thank you very much.

Senator SPECTER. Thank you, Dr. Varmus.

[The statement follows:]

PREPARED STATEMENT OF DR. HAROLD VARMUS

Mr. Chairman, committee members: I am Harold Varmus, the Director of the National Institutes of Health, and I am pleased to present to your committee the President's fiscal year 1996 budget for the NIH.

An overview of the fiscal year 1996 budget for the NIH

The President proposes to increase the NIH budget by $467 million, or 4.1 percent, above the fiscal year 1995 appropriation of $11.306 billion, keeping pace with inflation in biomedical research and allowing us to continue making progress against heart disease, cancer, AIDS, mental illness, and many other maladies.

The proposal emphasizes the Administration's goals to promote research on breast cancer, AIDS, the health of women and minorities, tuberculosis, and high performance computing. The request also highlights emerging scientific opportunities we at NIH have identified as components of our program that warrant especially strong support. If the President's request is appropriated by the Congress, we will be able to proceed with enhanced vigor to convert recent discoveries in neuroscience, cell biology, and genetics into advances against diseases of the brain, the reproductive system, and connective tissues, as well as several forms of cancer.

We foresee new means to prevent disease through a better understanding of infectious agents, immunization, and behavior, and we anticipate the development of novel therapies for the next century, based on delivery of genes to ailing cells and drug design guided by molecular structures. We can also enhance our ability to pursue these and other goals by investing in shared instrumentation, DNA sequencing technology, and a limited construction program. In addition, we will augment the efficiency of our research and administrative operations with a modern communications infrastructure.

I believe that this budget request reflects the commitment of President Clinton and Secretary Shalala to fundamental research and human welfare. It also embodies their conviction that an investment in biomedical science yields large dividends for the nation's health, its economy, and its cultural values.

The value of the NIH to the Nation

I bring this budget proposal to you in unusual times, when the Administration and the Congress are attempting to control budget deficits and the national debt through restrictions on Federal spending and the size of Federal agencies. These strictures demand that agencies justify their budgetary requests in especially forceful ways. I believe that the NIH is particularly well-suited to do this, based on its long history of scientific accomplishment and progress against disease, the diverse economic benefits of its research, its stringent review mechanisms, its international stature, the education and training it promotes, and the popularity of our major goal: The improvement of human health through scientific research.

The NIH invests in diverse programs that have major public benefits and are essential to a competitive nation in an increasingly technological world. We support health-promoting research conducted by our intramural program and at nearly 2000 of our country's colleges, universities, and other scientific institutions, and educational programs that provide information about health to the public and train many of the nation's outstanding young scientists. To do these things, we have harnessed a broad range of scientific talent, including basic biological and clinical scientists, chemists, applied physicists, computer scientists, behavioral scientists, and epidemiologists.

Our agency has pursued its goals with remarkable success for over fifty years. This success can be measured in several ways: by America's unequivocal world dominance in biomedical science; by the unremitting stream of exciting scientific discoveries supported by the NIH; by many improvements in health through the prevention and treatment of disease; by the strength of our research-intensive universities, which are the envy of the world; and by direct and indirect economic benefits of NIH-sponsored research.

The economic consequences of NIH research

The economic benefits of our work are sometimes underappreciated, but they warrant special mention in view of the current debates over government support of scientific research:

(1) Our research programs directly create skilled jobs, both in NIH-sponsored laboratories and in the many U.S. companies that provide the materials and instruments used in research. Stimulated by a strong research environment, these companies have become international leaders and favorably influence the balance of trade.

(2) We help to maintain the vitality of the academic institutions in which NIH-sponsored work is done—a vitality that has consequences in many fields of inquiry important to America's leadership in science, technology, and industry.

(3) The knowledge generated by NIH—sponsored research is essential for many of America's most successful business and technological enterprises. These effects are most obvious in the pharmaceutical and biotechnology industries, which depend upon discoveries in basic biomedical sciences to develop drugs and other products. It is less widely appreciated that NIH—initiated research profoundly influences many fields other than health: medical forensics (where DNA typing is now commonly used to identify suspects); agriculture (where genetically-altered plants and animals are improving yields, cutting costs, and extending the shelf life of common foods); manufacturing (where genetically-engineered enzymes are revolutionizing the production of many chemicals); and environmental sciences (where modified bacteria and biophysical methods are inexpensively restoring soil and water to their natural states after industrial contamination).

(4) NIH research often produces major economic benefits when it helps to prevent, control, or reverse disease. Because the nations's expenditures for health care have risen dramatically over the past decade, largely for reasons unrelated to NIH-based research, the savings provided by our discoveries are often overlooked. Many advances reduce expensive hospitalizations, eliminate the need for costly procedures, and increase the productivity of our citizens:

—Fluoridation saves the country approximately $4.5 billion each year by preventing dental caries;

—Psychoactive drugs—lithium for manic-depressive psychosis, clozapine for schizophrenia—drastically reduce hospitalization for mental illness, saving our $7 billion per year, and allow patients to return to productive lives;

—Vaccines provide enormous savings through the prevention of infectious diseases; for example, a new vaccine against Hemophilus influenza type B will save the nation over $400 million each year by preventing meningitis and consequent mental retardation;

—The recent discovery of Helicobacter pylori, a bacterial cause of gastric ulcer, allows cheaper and more effective therapy with antibiotics, reducing expenditures by over $400 million each year; and

—The control of blood lipid levels and other preventive measures have reduced the death rates for two of our three most common lethal diseases, cardiovascular disease and stroke, by nearly half, producing enormous effects on the cost of care and the health of our citizens.

Recent accomplishments by the NIH

Such successes, Mr. Chairman, are traditional sources of pride for the NIH, and they have paid for the total investment in our agency several times over. But we are equally proud of our capacity to return to this Committee each year with an impressive collection of new successes, such as the following list of some of our fundamental discoveries and clinical advances from the past year:

—Presaging a revolution in cancer risk assessment, the long-sought gene for some hereditary breast cancers, BRGA–1, has been isolated, as have genes that predispose some patients to colon cancer, melanoma, and kidney cancer;

—A simple drug, hydroxyurea, alters the composition of hemoglobin and thereby reduces by half the painful crises that commonly hospitalize patients with sickle cell disease;

—Hormone replacement successfully controls blood lipids in post-menopausal women and likely reduces cardiovascular disease;

—Naltrexone is the first drug in many years to help in the treatment of alcoholism;

—A new acellular vaccine for whooping cough is safe as well as effective;

—Ocular implants of the drug gancyclovir are effective means to prevent blindness from cytomegalovirus infections in AIDS patients;

—A naturally occurring peptide, angiostatin, inhibits metastatic growth of tumor cells by blocking blood vessel growth, offering a new strategy for cancer therapy;

—The so-called obesity gene, which governs appetite, weight gain, and diabetes in mice, has been isolated from mice and humans;

—The anti-viral drug, AZT, can prevent transmission of HIV from infected women to newborn infants; and

—Many new discoveries have been made about the biochemical mechanisms that control cell growth and cell death; the detailed shapes of important molecules, large and small; the functions of the immune system; and the patterns of development of several complex organisms.

The tempo of development of NIH research

Almost three months ago, the House Committee heard the testimony of six American Nobel Laureates, each of who recounted a personal history of scientific insight. Over the course of decades, each of their discoveries has advanced our understanding of cancer, heart disease, the brain, the immune system, or the human genome, and some have contributed directly to the nation's health through transplantation surgery, biotechnology, and drug development.

This year's catalog of progress at the NIH also ranges from fundamental science to specific therapeutic and preventive strategies. The stories told by the Laureates are useful reminders of the deliberate tempo of biomedical progress and of the collaborative efforts required to convert discoveries to practical benefit. Thus each of this year's advances has either a rich history of science behind it or a complex future of clinical application before it. Three examples of recent success illustrate both the pace and the partnership necessary for progress:

(1) *Cholesterol reduction.*—Company-sponsored studies of drugs known to lower cholesterol levels have recently revealed that these drugs reduce mortality by more than 40 percent in patients with pre-existing coronary artery disease. These extraordinary drugs were sought and developed by private industry only after NIH-supported scientists established that blood cholesterol levels are strong predictors of coronary heart disease; discovered the pathways for synthesis, metabolism and bodily traffic of cholesterol; and pinpointed an appropriate enzymatic target for drug action.

(2) *Thrombopoietin.*—During the past year, the biotechnology industry announced the isolation of a factor (thrombopoietin) that stimulates the production of human blood platelets. This breakthrough means that it will soon be possible to reverse one of the most devastating effect of chemotherapy—the bleeding caused by platelet deficiency—and thereby reduce morbidity and hospital costs for cancer patients. Isolation of the platelet factor became possible a few years ago thanks to basic research that fortuitously identified a related gene in a virus that causes leukemia in mice. The work also benefited from many years of NIH-supported research experience with other factors required for production of blood cells.

(3) *Protease inhibitors.*—Last month, AIDS researchers were heartened by evidence that the so-called "protease inhibitors" appear to be the most effective and least toxic drugs yet available to combat HIV. The protein-chopping enzymes (proteases) that serve as targets for these drugs were first discovered using retroviruses of chickens and mice and then, more recently, studied with HIV. Basic research, largely supported by NIH, proved that the proteases are essential for retrovirus growth, uncovered the molecular structure of the enzymes, and defined

their relationship to proteases found in other viruses and in normal cells. With this information, pharmaceutical firms sought and identified the inhibitors that are now being tested in patients.

A commitment to the future

The world is in the midst of a revolutionary phase of biological research, when genes, cells, and complex phenomena are being understood at an unprecedented rate. The emphasis our budget proposal places on several areas of research—including neurobiology, cell biology, virology, genetics, and developmental biology—reflects our enthusiasm for these fields and our conviction that judicious investments can produce important benefits for the public—progress against cancer and disease of the brain and other tissues—over the course of the next several years. At the same time, we must recognize that the prospects for capturing the clinical benefits of your new knowledge are threatened by the nation's financial straits, by the deterioration of the scientific infrastructure, and by the tensions created in the scientific community by intense competition for support.

Past and future successes in biomedical science depend on well-trained scientists, a vibrant network of academic and government laboratories, innovative pharmaceutical and biotech industries, and, most importantly, sustained support of research by the Federal government, largely through the NIH. Despite current fiscal circumstances, the Administration has made a commitment to continue such support with the budget I am presenting to you today. We ask that Congress join the Administration to help us continue to pursue our traditional objective—health through science.

I will be pleased to answer any questions you might have.

PRESIDENT'S BUDGET PROPOSAL

Senator SPECTER. As I look at these figures, and hear about the administration's enthusiastic support, I do not see it reflected in the figures.

It is true that the President has made a request for $11.7 billion, almost $11.8 billion, in fiscal year 1996, but by the year 2000, the request goes down to $10.7 billion, and the outlays in 1996 are $11.64 billion, and the outlay projection to the year 2000 is $10.894 billion.

There is a very significant inflation factor, and I am not unmindful of the fact that you are in the administration, but how can you say that is enthusiastic support for biomedical research?

Dr. VARMUS. Well, Senator Specter, I am addressing, of course, the 1996 budget in my remarks.

Senator SPECTER. Well, let us address——

Dr. VARMUS. I am prepared to go ahead and address the——

Senator SPECTER. Wait a minute. Let us address a little broader base. We are looking at more than 1996. You do not have quite the independence that a Senator does, but how about it?

Dr. VARMUS. Well, I have discussed this with Secretary Shalala, who has testified before the House, as well as I have, on the interpretation of the budget projections out to the year 2000.

She has argued that even if those reductions applied to the Department, that she would take, on a case-by-case basis, the application of those numbers to individual components of the Department.

We view our ability to negotiate a budget with the Department and with the administration as something we can take on in a year-by-year basis.

Senator SPECTER. Dr. Varmus, what would——

Dr. VARMUS. I will not pretend to support those numbers, but I will be prepared to try to work toward much more acceptable numbers within the administration.

I believe the Secretary has given her clear indication that she is willing to work with me on that.

IMPACT OF A 10-PERCENT REDUCTION

Senator SPECTER. Dr. Varmus, what would a 10-percent reduction do to NIH?

Dr. VARMUS. It would be devastating. Let me elaborate on that.

Senator SPECTER. Can you be specific?

Dr. VARMUS. Yes; I would like to be. As you know, a 10-percent reduction, which is what the chairman of the Budget Committee claims to be the effect of the budget bill that is currently being discussed, would have to, first of all, be seen as a 10-percent reduction from the 1995 levels. So, in fact, if you take inflation in 1996 into consideration, that would be roughly a 14-percent reduction.

The way our budget is constructed, as you well know, requires that we provide support to investigators who have been given multiyear grants in previous years. Each year we acquire an appropriation with which we have to both pay those obligations and pay new grants.

We have done some calculations with a variety of formulations. I should add briefly that in our attempts to calculate the Budget Committee's projection for NIH from the budget proposal, we find the deficit more than 10 percent.

Our numbers, the numbers of the Department, the numbers of OMB, indicate roughly a 16- to 20-percent reduction over the 1995 level. But at the 10-percent level——

Senator SPECTER. How do you come to that conclusion?

Dr. VARMUS. Well, we have looked carefully at all the components that have to be funded from the 550 allocation and we have looked at the agencies that are protected by the chairman's mark. When we take those components that——

Senator SPECTER. Dr. Varmus, let us go to some of the specific directors and see if we can get as concrete and tangible a statement as possible about just what it is going to do to important research and to important accomplishments that you have now.

Dr. VARMUS. Can I just make one——

Senator SPECTER. Excuse me just 1 minute. The generalizations do not work too well, so in your responses, be as specific as you can on the sound bite theory as to what we can take back to our colleagues on the floor, and we are going to, I believe, have an amendment to change this budget resolution.

Now, was there something that you wanted to add, Dr. Varmus?

Dr. VARMUS. I just wanted to give you a bottom line here, at the general level, and that is that if we make the calculation based on some assumptions about how we would spend money in various categories, a 10-percent reduction would give us an opportunity to support roughly 6 to 12 percent of new grant applications. That is a devastating number for our grantees. It would send——

Senator SPECTER. Six to twelve percent of new grant applications.

Dr. VARMUS. New applications would be funded——

Senator SPECTER. Excuse me. Let me finish the question.

Dr. VARMUS. Yes.

Senator SPECTER. Contrasted with how many now?

Dr. VARMUS. Now it is 24 percent, which is already a difficult number for many of our grantees.

Senator HARKIN. If I might ask, it was 24 percent approval rate, is that what you are saying?

Dr. VARMUS. That is the success rate. That is right.

Senator HARKIN. What was the response to Senator Specter's—what did you expect?

Senator SPECTER. Six to twelve——

Dr. VARMUS. Six to twelve——

Senator HARKIN. Six to twelve percent.

Dr. VARMUS. With a 10-percent reduction.

NCI'S CURRENT ACHIEVEMENTS

Senator SPECTER. Dr. Sondik, the Acting Director of the National Cancer Institute, what are your current achievements and what you are looking for in the next year that would be affected by a 10-percent reduction?

Dr. SONDIK. Thank you. I would be happy to answer. Let me say where we are in terms of achievements. The knowledge base today in cancer has exploded tremendously over the last couple of decades, so today we are poised to make enormous advances.

As was mentioned earlier, the genetic base for the disease is becoming clearer and clearer. We have models to understand its progression, and how to intervene with the disease are developing every day.

We have seen advances in breast cancer and colon-rectal cancer, but non-Hodgkins, lymphoma, melanoma, and prostate cancer, all of these just pose the challenge for the future.

Now, a decrease, such as the one that we are considering, will cut into the lifeblood of the Institute. We fund about 800 new, investigator-initiated research grants per year, and just extrapolating those numbers from Dr. Varmus' statement, you can see that we are dealing with perhaps 200 to 400 such grants in the future.

CURE FOR CANCER

Senator SPECTER. Dr. Sondik, let me ask a very simplistic question, which is: How close are you, and I know how many different types of cancer you have, but how close are you to a cure for cancer, if you could quantify it?

Dr. SONDIK. Well, I think I would have to refer to the Nobel Laureate, J. Michael Bishop's statement, when he appeared before that panel, and said that he feels confident at this point that within the next 30 years we will be able to understand this disease.

I think it is unrealistic, sir, if I may say, to talk about a single cure for cancer. What we can do is make enormous inroads.

For example, we had a recent study conclude that by using taxol for ovarian cancer, survival could be increased by 50 percent. With restricted resources, we are not able to capitalize on that kind of result.

We had another recent study of multiple myeloma, in a single patient. That patient effectively appears to be cured, at least for the near term, by the use of a vaccine. The vaccine was, in effect, incubated in the bone marrow of this woman's brother, and was injected back into this woman, who was very near death. That is the kind of result that we need resources for to be able to capitalize on research findings.

In breast cancer, as you know, we have research across the board, from the most basic, to the most applied research. We are on the verge here of learning more about the epidemiology of this disease, and how it relates to the genetic base for the disease, and then translating that into interventions.

IMPACT OF FUNDING CUTS

Senator SPECTER. To what extent would a 10-percent cut impede that kind of progress?

Dr. SONDIK. I think it impedes progress across the board for cancer, which is such a large disease. I would characterize it in a word I think Dr. Varmus used, as lost opportunities, not necessarily even delayed opportunities, but lost opportunities.

Senator SPECTER. Let me ask you to do this. We have a lot of people to cover in a limited amount of time. Please think about it between now and Monday, I do not think we are going to argue this amendment until Monday, and put it in the most crisp, concise terms you can, as to what you hope to accomplish next year or the next 3, 4, or 5 years, and how it would impact, just in as strong, obviously accurate, but strong and as tough a language as you can, and we will use that on the Senate floor.

Dr. SONDIK. I would be happy to do that.

NHLBI'S CURRENT ACHIEVEMENTS

Senator SPECTER. OK. Dr. Claude Lenfant, the Director of the National Heart, Lung and Blood Institute, the same question.

Dr. LENFANT. Let me, first address the achievements, and I would like to cite three for you. The first one is that we continue to see a decline in the death rates from coronary heart disease, which, as you know, is the No. 1 killer in this country. And we see no reason to think that this decline is going to diminish in the years to come.

The second accomplishment that I would like to cite was, in fact, mentioned by Dr. Varmus, which is hydroxyurea as a drug to treat crises in sickle cell disease patients.

As Dr. Varmus mentioned, this study will result in a considerable increase in the quality of life for these patients as well as a considerable reduction in the cost of treating these patients.

The third achievement that I would like to mention is the result that we have reported this year on the effect of hormonal replacement therapy as a way to decrease risk factors of coronary heart disease and heart disease in women.

In regard to the question as to what would happen if we had to be subjected to the reduction in the budget that you mention, let me mention just one thing. We have been tremendously successful in reducing the death rate of cardiovascular disease in this country. In the last 25 years, the decline has been more than 55 percent.

However, we have not been as successful in preventing development of cardiovascular disease in these patients.

And the result is that we find ourselves in this country today with an ever-increasing number of patients suffering from chronic heart disease, a condition which is called heart failure, which is a very weakened heart that incapacitates these patients in a very significant fashion.

Today, our research gives us the opportunities to address this issue in a very effective way. We know how to do it. We know where to go. However, as my colleague mentioned, that will require a number of resources.

Sure enough, we could divert some of our resources to do some of that work, but the net result is that it would be done very slowly, and at the same time, increasing the burden resulting from this disease.

I might mention one other thing. The work that was reported to you on the hydroxyurea was in adult patients. There is now good evidence that the same result could be obtained if the treatment were started earlier in children, but that has to be tested. And to do it would require initiating a new set of studies.

Senator SPECTER. Before we go any further, let me yield now, without taking any more time, to my distinguished ranking member, Senator Harkin.

Senator HARKIN. I appreciate it very much, Mr. Chairman.

Well, we are all wrestling with these budget problems. Is it your intent, Mr. Chairman, to go on around?

Senator SPECTER. Well, I am interested in doing that, subject to time limitations. I am not quite sure.

I do not want to foreclose your questioning or Senator Mack's questioning, and it may be that a better approach would be to get the responses in writing. I am not quite sure, as we work through.

We all have an awareness of enormous achievements, and ongoing research, and very optimistic expectations, or hopeful expectations, and I know that they cannot be quantified, and I understand that cures are not possible to predict, but to attract the attention of Senators is a tough matter.

It has to be very brief and very pointed, and even beyond attracting the attention of Senators, to attract the attention of the news media is even tougher on the sound bites and the brief reports.

But if we could put together a table, from the kind of expertise we have here, as to what this funding has done, that is, in terms of accomplishments, and how you see a 10- or 16-percent cut affecting what you hope to accomplish in the next year or the next 5 years, as to what it means individually, talk about cancer, everybody is scared to death, breast cancer, scared to death, coronary, terrified, and that is what it takes to make the argument to prevail.

So I am really trying to see our way through here as to how we may proceed. And I think Senator Harkin, it may be better to get it in writing, and to have a more generalized discussion now.

Senator HARKIN. I appreciate that, Mr. Chairman, and I would hope that in your charge that, here again, we are dealing with basic research, and a lot of times it is hard to quantify basic research. Basic research is basically opening doors.

We do not know what is behind those doors. So I would hope that Dr. Sondik, in your response, that you can address what can be accomplished, if we do not have cuts, I know it is tough sometimes to translate this into hard facts.

I always liken the kind of research that all of you do is that you have 10 doors, you do not know what is behind them. You have some ideas and can speculate about what might be behind them, but we do not know.

We can open one door, and that leaves nine that we did not look behind. Now, maybe you are lucky, maybe that door you opened might lead to something. Odds are, maybe it will not.

Now, obviously, the ultimate would be to open all 10 doors. We do not have enough money to do that. So are we going to say we are going to open five, six, or seven, or are we going to go down to two or three?

So I think the charge that we have to give to our colleagues in the Senate is to say look, you know—I am going to tell you one thing, you are not going to get the cures for Alzheimer, and cancers, and heart disease, and AIDS, if you do not open any doors. I can assure you that.

Now, can we assure you if you open one? I do not know. But you figure the odds. If you only open 1 door out of 10, you figure the odds.

If you open 10 out of 10, the odds are pretty high, with the kind of skills, the kind of insights we have now, especially in genetics, that we will find it, and we are getting very close. We are isolating these genes right now.

Again, I do not want to go on too long, Mr. Chairman, but I liken where we are right now as to when Enrico Firmi built the first nuclear reactor at the University of Chicago.

Now, they did it, but they did not know what it was going to lead to. They really did not know. And then the immense amount of research that we put into that after that—and I do not mean just in the weapons side, I mean in everything else dealing with the whole area of exploring the atom, and what that has led to in our own lifetime.

I think that is where we are right now in biomedical research. We have discovered a sort of chain reaction. We know what is happening, and now we really have to put the oomph behind it, in the terms of the research, to open these doors.

We need the hard sell for the sound bite. We need the hard sell to reach the newspaper writers, if it is to get in that one little sentence. You can point to accomplishments that you have had in the last 50 years. Those accomplishments came about after basic research.

We did not know what was going to happen in many cases. And so, again, I think in the accomplishments, we have to talk about, with adequate funding, what can we do in terms of getting researchers, the kind of qualified people that we need, the future Nobel laureates.

We do not know where it is going to lead us, but will it answer some basic questions that we have? We do not know where it is going to lead.

So those, I think, are also accomplishments. If we can attract some of the brightest young people in our country to get into the field of research, I think that is an accomplishment.

I do not think it has to be quantified beyond that. If we can say that we have these 10 doors, and if we keep up the funding we will open up 6, rather than 3. Personally, I do not think you have to go beyond that, in terms of basic research. That is an accomplishment in itself.

So I hope in your response that you will point that out, accomplishments in the areas of basic research.

Well, I did not mean to go on like that, and I did have some other questions, Dr. Varmus, about cuts in FTE's. I just want to ask one question about that.

In the cuts, who is going to be cut? If the cuts that I see here, as proposed, in 2,609 FTE's, from NIH's 1993 base of $17.448 billion, who is getting cut? Do we cut out duplicative administrative personnel, or are we going to cut out research personnel in the intramural program?

IMPACT OF CUTS IN FTE'S

Dr. VARMUS. We are taking almost all our cuts from the administrative side. We anticipate no more than a 5-percent reduction in our scientific staff, and a much heftier reduction in our administrative staff.

We are under ceiling at the moment. We are streamlining many of our processes. We do not expect to require any layoffs at all.

We believe that within the natural attrition rate, with the streamlining that has been made possible through the reinvention of government, that we will be able to make NIH much more efficient as an administrative structure.

Senator HARKIN. I assume that you are talking about consolidation of functions.

Dr. VARMUS. That is correct—establishing competitive service centers and simplifying through computer programs.

Senator HARKIN. Did you say a 5-percent cut in your scientific personnel?

Dr. VARMUS. That is correct. Overall, we are obliged by the OMB to take a 15-percent reduction in our overall staff, but we are trying to minimize the effect on the scientific work force.

Senator HARKIN. In other words, after you have cut—is what you are telling me that after you cut and after you consolidate the administrative personnel, you still need to cut some more, is that what you are saying then?

Dr. VARMUS. Yes.

Senator HARKIN. And that translates into about 5 percent, correct?

Dr. VARMUS. That is over several years.

Senator HARKIN. How many years?

Dr. VARMUS. I think it is 5.

Senator HARKIN. So a 5-percent cut over 5 years, correct?

Dr. VARMUS. Yes; we can manage that within the usual attrition rate. We are, at the moment, under our ceilings. We are recruiting very actively and bringing talented new investigators onto campus. We do not feel that we are constrained by these numbers.

IMPLEMENTATION OF IOM REPORT

Senator HARKIN. Well, that is good. I have one last question, Mr. Chairman, if you will indulge me. I just have a question for Dr. Cowdry, at the National Institute of Mental Health.

I requested about 3 years ago that you contract with the Institute of Medicine [IOM] to assess what needs to be done to prevent mental illness.

IOM has now issued its report called: "Reducing Risks for Mental Disorders, Frontiers for Preventative Intervention Research," and has found two areas to be of prime importance.

We just had a breakfast the other morning on brain research. I know that the chairman of the Budget Committee is also very much interested in this.

But, Dr. Cowdry, to implement the key recommendations from the Institute of Medicine, this subcommittee recently heard from 14 national organizations asking that NIMH seriously consider an increase in the B-start program to train a cadre of mental disorder prevention researchers, and asking NIMH to take a larger role in the coordination of Federal prevention research that now exists across 23 agencies.

Would you comment on these two requests that we have received from these organizations?

Dr. COWDRY. Certainly. I would be happy to, Senator Harkin. First of all, the report from the Institute of Medicine, I think was quite remarkable.

It conveyed the kind of progress that has been made in the last decade, developing a science of prevention that involves controlled trials of specific interventions and disorders. To date, this has been accomplished in the areas of depression and conduct problems among children and adolescents, and has explored what the factors are that can change the occurrence either of depression or of behavioral difficulties, particularly aggressive behavior in children and adolescents.

There is certainly potential for further progress in this area. One of the key IOM findings concerned the difficulties of attracting people into the area. I think there are two areas in which, even with budgetary constraints, we could make some progress.

One is in the B-start program. We funded that, I think, quite generously. Over the past year, for example, we increased it up to approximately $1.5 million. This provides small grants in the behavioral sciences for pilot studies, usually by young investigators just entering the field.

We would try to do what we can, although quite frankly, I think that with the budget picture that is currently being projected, there is not a lot that can be done. It is possible, however, that we can do something in terms of what we currently devote to career mechanisms.

Where we end up next year with the budget will determine whether we can make any progress or whether we will be fighting to maintain the kind of effort that we have had over the last few years.

REMOVAL OF CRADA PRICING CLAUSE

Senator **Harkin**. I appreciate that, Dr. Cowdry. Last, Dr. Varmus, I just want to commend you for removing the pricing clause on the CRADA's, the public health service.

I hope it will be regarded by the industry as a commitment by NIH to improve the transfer of technology between Federal and commercial laboratories.

Mr. Chairman, I will abide by your wishes. I have a lot of questions for Francis Collins, and I had some questions about the genome project that could go on for some time. Perhaps we can get those in writing.

Senator **Specter**. Thank you, Senator Harkin.

Senator Mack.

IMPORTANCE OF MEDICAL RESEARCH

Senator **Mack**. Thank you, Mr. Chairman.

Let me just add a thought or two to the materials that the chairman has asked you to gather together for us in our effort in the next week to make a case about why there ought to be higher levels of funding.

A couple of years ago I read Dr. Stephen Rosenberg's book "The Transform Cell," and I think I learned a fair amount of science from it. What really struck me about the book, as a layman who had very little scientific knowledge, was how interested and how captured I was by the book.

Now, the point I am making is that Dr. Rosenberg tied the various research projects with which he was involved to patients, and that has a tendency to hold people's attention.

So I would say to you when you are providing information to make the case about the importance of medical research, if we can have stories that touch on the effect it has on real people, it makes our case a lot easier.

In some of the reading that I have done on the, I do not know whether to call it P–53, either gene or protein, I mean it strikes me as holding just tremendous promise.

I go back to the issue of how to present this from the standpoint of what potential losses if we have to limit funding. For example, if we are doing 800 research grants now on P–53, and we may go to 200 or 400, there may be a whole area with respect to research on P–53 that would have to be eliminated, and how that would play out.

So, again, I would just encourage you, wherever you can find the ability to tie it into what it means to somebody's friends, somebody's family, it would be very, very helpful.

Dr. Varmus, I think you have submitted some names for the next director of the National Cancer Institute.

Do you have any idea—did the White House give any indication as to when they are going to make a decision on that?

STATUS OF NCI DIRECTOR SEARCH

Dr. **Varmus**. Yes; we expect to have the new director in place on August 1. I am not free to divulge the name of the candidate.

Senator MACK. Again, is there any indication as to when we might have some idea of who that candidate is?

Dr. VARMUS. I think within the next 4 weeks.

ONE PERCENT TRANSFER

Senator MACK. All right. Dr. Varmus, last year, the Congress authorized the Office of the Director to transfer up to 1 percent of each Institute's budget for activities which you may designate.

In the budget justification documents, it was stated that the NIH was forwarding documentation through HHS channels, proposing transfers in 1995. I have a couple of questions there.

Has the documentation been transmitted to HHS, and have you notified Congress of these changes?

Dr. VARMUS. We have discussed the changes with Congress, with the House committee. The papers were sent to the Department. They are still in the Department.

Senator MACK. Is it possible that you could give us a brief description of how the transferred funds were going to be used?

Dr. VARMUS. Yes; it is. We are going to transfer a fairly limited number of dollars—the total is something on the order of $8 million. The initiatives include a proposal to map the rat genome, basically, to do genomic research with the rat.

This proposal would be administered by the National Heart, Lung, and Blood Institute [NHLBI]. There is a DNA sequencing project that would be carried out by the NCHGR, and an initiative that is jointly shared with the NCRR and the NIGMS to acquire small-angle x ray scattering devices.

We have worked these proposals through together, as a confederacy of organizations, discussed this in a communal fashion with all the Institute directors, brought advisers from the extramural scientific community together to consider the list of possible projects for transfer, and we have agreed to these three, which we believe are scientifically appropriate.

We hope that the paperwork can get all the way through soon, so that we can make the transfers. I am as anxious about the paperwork moving slowly as you are.

REPROGRAMMING

Senator MACK. The only thought that I would toss out at this moment is whether we should consider—as I understand it, when reprogramming takes place in other areas of Federal expenditures, generally, that reprogramming is worked with the appropriate committee.

Do you have any thoughts with respect to that suggestion——

Dr. VARMUS. Well, I would be——

Senator MACK [continuing]. Besides maybe you want us to stay out of it?

Dr. VARMUS [continuing]. I would be pleased to discuss them with this committee, but they also need to go through the Department. It is also very important for the Institutes to know when the money is going to be moved, because they have to take the transfers into account when they do their own budgeting for 1995, which is more than half over.

We need to find some way to move this process more quickly, because we made our decision some time ago, and we do not have the money ready to move. I am sorry about that.

ETHICAL CONCERNS REGARDING HUMAN GENOME TESTING

Senator MACK. If I could address another question or two with respect to genetic testing. It was my recent pleasure to spend several hours with Dr. Collins and his team at the National Center for Human Genome Research. It was well worth the time and the effort.

And as you know, Dr. Collins, there has been considerable debate about human genetic testing. Some believe it would be unethical to deny people the knowledge of knowing if they are at increased risk for diseases such as breast cancer.

Others believe it is too soon to be conducting human tests on a wide-scale basis, that it is not clear if patients would be helped or harmed by this knowledge.

I would be interested in knowing your collective opinions. When I say that, I am referring to Dr. Varmus and whoever might want to respond to that question.

Dr. COLLINS. I would be happy to respond. Sorry about my voice. I would not want you to think the genome project has lost its voice, but it is a little muffled today.

You have put your finger on a very important issue. The ability to make predictions about susceptibility to future disease is very powerful information.

I believe it is not inappropriate to compare that kind of testing to what happens when you develop a new drug. After this sort of discovery you should figure out its efficacy and its toxicity before you apply it to the general public.

Cancer predisposition testing can be enormously beneficial, if it points out to a particular person that they are at risk of an illness that they might avoid by lifestyle changes or careful medical surveillance. That is the promise of this testing for BRCA–1, colon cancer, and melanoma, and we are all very excited about that future.

But at the same time, we are not yet smart enough to survey a large gene when you find a mispelling, and, to know immediately that this mispelling confers a high risk of disease, a low risk, or no risk at all.

Until we have better answers to such questions, it would probably not be a good idea to have this testing offered to everybody coming in for a check up.

Therefore, we believe strongly—and this is supported by consumer groups like the National Breast Cancer Coalition, with whom we have worked closely in developing these guidelines—that such DNA testing ought to be studied initially as part of a series of pilot research projects, to find out how to do it right, how to educate people sufficiently so they can decide whether or not to take such a test. Then, if they have the test, we must learn how to counsel them about the consequences, and give them advice about what medical steps they might take.

In that regard, we have recently established a task force on genetic testing, which is chaired by Dr. Tony Holtzman, of Johns

Hopkins University, and which has representation from professional geneticists, from consumers, from a number of government agencies that are involved in oversight of genetic testing, like the FDA and HCFA. This task force, which had its first meeting a month ago, is wrestling with this whole array of issues, and intends, within 18 months time, to come forward with very concrete policy recommendations about how to oversee this very exciting, but potentially challenging area of science.

I think we are on track with this, but I think you are right to point out that this is a delicate area.

Senator MACK. Thank you very much.

Senator SPECTER. Thank you very much, Senator Mack.

We have just been joined by Senator Kohl.

Senator KOHL. Thank you.

Senator SPECTER. Do you care to ask any questions at this time?

INITIATIVES TO ELIMINATE INEFFICIENCIES

Senator KOHL. Thank you. Yes.

Dr. Varmus, we need your help in coming up with alternative sources of funding to sustain biomedical research and find ways to cut inefficiencies at NIH.

Are you prepared to make any recommendations to help us eliminate inefficiencies with the NIH and generate new resources, so that important biological research is not compromised?

Dr. VARMUS. Well, sir, I do not believe we are a grossly inefficient agency. We believe there are some minor inefficiencies which we are trying very hard to improve through a number of initiatives that fall within the domain of reinvention of government.

We are streamlining many of our administrative activities, we are bringing together units that serve separate institutes to provide service centers.

We are looking very carefully at our supervisor to supervise ratios. We have met as an administrative unit across the Institutes to look for ways to improve the efficiency of our activities.

But overall, our management costs for grants administration are low, and the vast majority of our funds go to support either intramural research on the campus, or to the universities and private research institutions around the country, where NIH-supported research is done.

We believe we very efficiently get money to our grantees and to our intramural investigators.

REDUCTION IN THE OFFICE OF THE DIRECTOR STAFF

Senator KOHL. I notice that you have 700 people, I believe, who are in your office, 700 people in the Office of the Director.

Have you thought about, or do you intend to do something to reduce the number of people who work in the Office of the Director?

Dr. VARMUS. Yes; we are reducing that somewhat, but we do have a large number of responsibilities that need to be carried out, including careful management of an appreciable number of dollars, reports that have to be prepared for the administration and for Congress.

There are many tasks that are involved here. It is not quite so simple to reduce our staff and assume that we will still be able to carry out the necessary functions of an agency that does as much scientific research as we do.

Senator KOHL. Did you want to respond to that Dr. Paul?

Dr. PAUL. The responsibilities of the Office of the Director are important. As you know, the Office of AIDS Research is under the Office of the Director, and we have very substantial responsibilities there.

We are overseeing the AIDS budget, and, of course, while we are trying to do that with as few personnel as possible, inevitably, to steward those funds carefully, it requires that talented people be brought to bear. So I would have to support entirely Dr. Varmus's statement.

Senator KOHL. Well, I guess, there are 700 people. Do you know whether compared to a year ago or 2 years ago if it is less, the same, or more?

Dr. VARMUS. I believe it is somewhat less, but Dr. Kirschstein could probably provide you with——

Senator KOHL. Dr. Kirschstein?

Dr. KIRSCHSTEIN. I do not have the precise numbers, but it is less, sir. And furthermore, we have asked all of our Institutes, and we, in the Office of the Director, are studying our organizations, and we will have streamlining plans presented to an overseeing group, we call it the resource allocation group, by sometime early in June.

We will be studying those and moving toward whatever efficiencies we can accomplish.

But I would like to echo what Dr. Varmus says, and say that we have had other offices put in place in the Office of the Director, for example, by statute. We have a new Office of Dietary Supplements, that we have to set up.

We had an Office of Alternative Medicine. We have an Office of Minority Health, an Office of Women's Primary Health Research. So those are offices that must be staffed.

NLM BUDGET INCREASES

Senator KOHL. All right. I would like to ask about the Library of Medicine for a moment. The budget for the National Library of Medicine has grown dramatically over the last 4 years.

It has increased by $35 million. Now, we understand how important the function of the library is in providing information, but I am concerned about our ability to sustain these costs and maintain the library's critical function.

So are we looking at ways, for example, to expand public-private partnerships? Are we looking at user fees? What is it we are going to do to see to it that the budget for the National Library of Medicine does not continue to grow so fast that we are forced to do something we do not want to do?

Dr. VARMUS. As you know, Senator, the Library of Medicine has had a major responsibility in developing high-performance computing, which is providing a major service, not only to the scientific community, but to the health care community, through telemedicine, and many other functions.

We believe those increases have been very well justified, and Dr. Lindberg has had the central role, nationally, in developing the use of computers to revolutionize the way medical care and research are carried out.

I will be happy to have Dr. Lindberg comment further about his streamlining activities, which have been considerable.

Dr. LINDBERG. Senator, thank you very much for your concern with the library and its budget. I agree, of course, with what Dr. Varmus said.

And actually, in fact, during that period of time, the amount of money to support basic library services, and two-thirds of the budget really is service to the Nation and to our overseas partners, has not changed at all.

It has barely kept up with inflation, a similar situation to other NIH Institutes. So virtually all of the increase has been in funds that are designed to support the high-performance computer and communications initiative.

Virtually, all of those moneys have been used to help the biomedical enterprise in the United States, scientists and health care providers, to participate in and benefit from those new computers, and the internet, and the communications capability that this administration and the previous administration created when the Congress created that program.

The net result of this is that medicine is starting to get a real lift from the investment of Energy, Defense, and the other major research industries and agencies.

Telemedicine is a major example. This is allowing us to, we think, give expert care to even the most remote areas and even the most underserved populations.

Computer-based patient records is another example of this, as is the visible human a digital three-dimensional piece of anatomy, now available, essentially, to every school and every researcher in the country through the internet.

So with those funds, we can say that 75 percent of all academic medical center, libraries, are now attached to the internet, but we have to regrettably say that only 25 percent of community hospitals are attached.

We would like to continue to put that program forward, so that all segments of the economy and all areas of the country have that benefit.

CRYPTOSPORIDIUM RESEARCH

Senator KOHL. All right. I have one other question, and that is on cryptosporidium. I have a particular interest in this, because we had an outbreak, as you probably know, in Milwaukee, and lost 100 people a couple of years ago.

I am not satisfied that we are doing enough to prevent another outbreak, whether it is in Milwaukee or anywhere else. I wonder, to what extent is the NIH coordinating with the EPA on research activities? What can I bring back to my Milwaukee constituents with respect to what we are doing to see to it that cryptosporidium is laid aside in our society once and for all?

Dr. VARMUS. We do have efforts in cooperation with the CDC. Perhaps Dr. McGowan would like to say a word or two about that.

Dr. McGowan. Yes; we are collaborating with the CDC. As you might understand, our efforts in cryptosporidium actually go back to the initial days of AIDS research, where in AIDS patients, cryptosporidium represented a problem.

So we have a very small-scale effort to try to grow the organism and to try to identify drug treatments. But it is a small-scale effort at this point in time, and the efforts by CDC are mainly a survey effort around the country. So there is not a large massive program ongoing on cryptosporidium. It is only a small research program at this point in time.

Senator Kohl. You are not doing overly much with——

Dr. McGowan. No; it is a small series of research projects, mainly looking at animal model systems to grow cryptosporidium and to develop tests that will allow us to see whether or not we could get a drug to treat it better than we currently can.

Senator Kohl. You have had no cooperative work with the EPA on this.

Dr. McGowan. We interact with the CDC and EPA, but I cannot tell you at this point in time the degree of that interaction.

Senator Kohl. I would like to work with you to see what we have done and what we can do.

Dr. Varmus. We will submit a statement for the record that details all the activities that are ongoing and planned.

Senator Kohl. I would very much appreciate that. Thank you very much.

[The information follows:]

NIAID Support of Research on Cryptosporidium

The NIAID supports research to develop new immuno- or chemotherapeutic interventions for treatment of Cryptosporidiosis. This research is conducted by investigators working at universities, hospitals and companies throughout the U.S. Investigators are studying the effectiveness of antibody-containing bovine anti-Cryptosporidium immunoglobulin, as well as ways to enhance its potency. These studies include development of methods for the immunization of calves, likely to be a major reservoir for the parasite in the U.S., which may also yield clues for eventual development of vaccines for at-risk patient groups. Related research involves the study of immune mechanisms that protect the host against parasite invasion and growth.

Cryptosporidiosis is also believed to be a common infection in U.S. daycare centers. Research conducted through NIAID's international centers program has shown that cryptosporidial infection is a major cause of persistent diarrhea in children. This research seeks to better understand the interactions between environmental, host and parasite characteristics which lead to clinical disease in children. These studies of high risk populations of children in Brazil and the Middle East are also assessing the therapeutic efficacy of bovine anti-Cryptosporidium immunoglobulin as well as a new antibiotic, azithromycin, for treatment of cryptosporidial diarrhea.

The results of these studies could be very relevant to treatment of potential outbreaks in the U.S. similar to that which occurred in Milwaukee. Another drug, parmomycin, is being tested against cryptosporidiosis in several AIDS Clinical Trials Units. In addition, much basic research is directed toward design and development of new and better drugs for cryptosporia. These efforts also include the development of better culture systems and animal models for screening of new drugs

To integrate NIAID-supported research activities with ongoing efforts of other federal agencies, NIAID staff participates in the "Working Group on Waterborn Cryptosporidiosis". This group includes representatives from the CDC, EPA, USDA and several other public and private groups, and collaborates with CDC staff in th organization of workshops and meeting symposia.

EFFECT OF BUDGET REDUCTIONS

Senator KOHL. Mr. Chairman.

Senator SPECTER. Thank you, Senator Kohl.

With respect to the questions, and Dr. Varmus, if you would help us by collecting them, say, by Monday, getting them to us by Monday, noon——

Dr. VARMUS. Absolutely.

Senator SPECTER. With the thought that we will not have an amendment before that time.

These are the questions which we would like to have answered. No. 1 is: Identify your recent major achievements. No. 2: To the extent you can project over the next 5 years, what do you reasonably expect to achieve? And question No. 3: What will the effect be of a 10-percent budget cut?

Dr. VARMUS. Senator, if I could make a 1-minute comment about Senator Hatfield's metaphor?

Senator SPECTER. Sure.

Dr. VARMUS. We have built over the 50 years, 26 lumber mills, staffed with extraordinary people, producing large amounts of fresh lumber, that then gets fed into carpentry shops—biotechnology companies—pharmaceutical houses, as fresh knowledge harvested from the forest.

I think it is important, as we think about the effects of these cuts, to remember that they will markedly reduce our ability to go and cut more trees. As we take apart those shops as a result of these cuts, we are going to have a very difficult time recruiting new lumbermen, and doing all the things required to keep these active shops a healthy investment that has been created over so many years.

The repercussions of what is planned for next year will be felt for not simply 5 years, but for a long time in the future.

Senator SPECTER. Well, you do not have to persuade me beyond the lumber mill example.

Dr. VARMUS. I understand.

Senator SPECTER. If you have a better way of quantifying the kind of information we are looking for, I think you know what we are looking for, we would be glad to have your suggestions and your thoughts on them.

We are just looking for something as tangible as we can to put—perhaps a dear colleague letter, or a news release, or to say on the floor, because right now the sentiment in the Congress is to be very, at least somewhat unresponsive to generalizations, although, I certainly understand what you are saying.

FUTURE OPPORTUNITIES FOR YOUNG RESEARCHERS

Let me ask you one final question. The question relates to the opportunities for young research scientists, recent graduates, as opposed to people who are more established in the field.

Do you have some way of recognizing the applications of the recent arrivals in the scientific community with some special allocation?

Dr. VARMUS. We do. And that is a particularly important question. I am grateful to you for asking it. When we say the average success rate is now roughly 24 percent, we have to recognize that within that 24 percent, there are some people who have a much higher rate, others have a lower rate.

For example, those who are competing for renewal of existing grants have a considerably higher success rate than do new applicants. After all, they have already had a grant. They have already been approved. They have already had a chance, unlike new applicants who have not had a grant before.

The rates also differ among Institutes and among different disciplines. We would anticipate that those discrepancies would continue to exist, and that they would have a particularly devastating effect upon new investigators.

This morning at the event in which you participated to discuss the dilemmas proposed by the cuts at NIH, there was a young woman from Johns Hopkins University, who has been training for nearly 15 years to do biomedical research on cystic fibrosis.

She has just accepted a job at the University of Pittsburgh, in your State, and she would like to have a chance to reap the benefits of the training that she has had as a graduate student and postdoctoral fellow.

She enters biomedical research in this year. If there is a 10-percent cut in the NIH budget, I think her chances of being funded are probably about 1 in 20 or less.

That is a very destructive signal, not only to somebody who has been through that training, but also to someone who is in a high school biology class, being turned on by the prospects of genetics or work in the nervous system, or someone who is contemplating a career in biomedical research.

Senator SPECTER. But you do now take a special look at the young scientist, the young researcher, correct?

Dr. VARMUS. We take a look, and we have some special grant mechanisms, but we also know that those people, on the whole, have a disadvantage, compared to those who already have an established track record.

Senator SPECTER. Well, that poses an issue in which you need some balance on, to give them perhaps a little extra consideration.

Senator Mack raised a very important question when he talked about the gene research. There are so many things we could talk to you about. We are running somewhat late, and we are tying up medical research in a big way by keeping all of you in this hearing room unduly.

The subcommittee is considering having a special hearing on a subject which was on the front page of the New York Times just last Saturday, with a major headline, "Religious Leaders Prepare to Fight Patents on Genes. The U.S. asked to reverse a 15-year policy, the foundation of the biotechnology industry."

So we are going to be, we hope, doing some more intensive study on that. That is a subject I would like to get into today, but because of the late hour, I think it might be better suited to do a special hearing on it.

Well, we thank you very——

Senator HARKIN. Could I just have 1 minute?

Senator SPECTER. OK. Senator Harkin has 1 minute.

IMPACT OF REDUCED FUNDING ON THE HUMAN GENOME PROJECT

Senator HARKIN. Thank you, Mr. Chairman.

With regard to what the chairman is asking, specifically, with the gene project, Dr. Collins, this subcommittee, over the last several years, has been proactive in increasing funds for the human genome project.

With your predecessor, Dr. Watson, I continually asked why it was going to take so long, and he tried to explain it to me. I do not know that I fully understood it.

But a couple of years ago, with recent breakthroughs, it was my understanding that the timeframe, and I asked you that in the past, that the timeframe was collapsed for the entire mapping and sequencing.

What will this reduced funding mean, in terms of the time length now?

Dr. COLLINS. 2005 is the original goal.

Senator HARKIN. But that collapsed down somewhat, did it not?

Dr. COLLINS. We now are talking about 2001 or 2002.

Senator HARKIN. Will this decrease in funding extend that out?

Dr. COLLINS. It absolutely will extend the completion date. Those dates were calculated under the assumptions of continuing support of the project.

The human genome project—which I think this committee deserves a great deal of credit for supporting and seeing the vision of, at a time when not everybody else did—has been going remarkably well.

We now have a terrific genetic map of the human, thanks in large part to the Iowa Genome Science and Technology Center. We also have an increasingly wonderful physical map, a set of overlapping clones, which is going to be completed a good 2 years ahead of schedule.

But it is now time to turn our attention toward sequencing, toward getting every single A, C, G, and T.

FUTURE FOR HUMAN GENOME SEQUENCING

Senator HARKIN. The mapping will be done, I guess, next year, is that right?

Dr. COLLINS. Essentially.

Senator HARKIN. Essentially.

Dr. COLLINS. The sequencing has been awaiting the opportunity to have the budget that it needed in order to ramp up.

The maps were so important, that everybody felt we had to get those done first. This priority was because the gene hunters needed these maps to find all those genes that you read about every month that are now turning up. Genes are coming in great profusion now, as a result of these maps.

Furthermore, the sequencing technology had to mature to the point where you could actually imagine doing 3 billion base pairs. The capability to do this is now maturing, whereas a year or two ago, people were a little nervous about whether we could actually do this part.

There is growing confidence in the community that not only can we do it, but we can do it early. There are realistic scenarios on the table to get the sequencing done by the year 2001, at least about 99 percent of it.

In fact, NCHGR has issued a request for applications to invite proposals from investigators who would like to do human sequencing on a fairly ambitious scale. We are also encouraging other investigators who would like to improve the technology further, scale it down to the size of a credit card, instead of something big that sits on the lab bench.

There are clearly several groups that are ready to do this sequencing. The teams are assembled, and we were pleased that one of the NIH 1996 budget initiatives is devoted to DNA sequencing. This increase is to support that kind of effort.

This is a critical time for the human genome project. If it is not possible to ramp up, the teams will be demoralized and may disband. The people who do all the door opening will wonder if door opening is a good thing to spend their life on, or should they do something else.

Furthermore, it is an international project. It is also internationally competitive. If the U.S. loses its nerve to maintain its lead, I can promise you that other countries will step in.

The Japanese genome project has been growing by 15 to 20 percent a year. It does not take a mathematician to tell you that if one line is flat and another is rising, they will intersect. And clearly that would be, for American biotechnology, an unfortunate outcome.

I think we are all quite worried about this. Here is a concrete example to answer Senator Specter's question, what would be the consequence of a 10-percent cut? For NCHGR, it would be our new sequencing initiative. Those are the new grants that we would fund, the ones that will drop from approval rates of 24 percent, down to 5 to 10 percent or less. We will not be able to do sequencing, except on a very modest scale.

This historic opportunity, of reading our own blueprint, will thus have to wait a while longer, and maybe somebody else will do it.

Senator HARKIN. Mr. Chairman, I do not know what the outcome of this whole budget thing is going to be, and what our appropriation is going to look like next year for NIH, and I do not mean to exalt one provision or one Institute over another, they are all very important, but this project of mapping and sequencing the genes is the foundation for all the Institutes, for everyone at this table.

Again, what it is going to lead to, I do not know. Maybe a lot of people do not know. I think in every institute here, there is going to be something that they are going to look at in the human gene to further expand upon their knowledge, whether it is in cancer, or in eye research, or hearing research, or diabetes.

I just hope, Mr. Chairman, there is some way that, however this whole thing ferrets out, that we somehow, I do not know how we will do it, but I would like to make sure that we do not slow down, and we somehow keep that effort going.

I share with Dr. Collins his view that if the genome project is cut, the teams are going to be assembled, the whole sequencing project that can be done, will be set back. I think the project can be completed even more rapidly than 2001, but we can argue about that, because there are some efforts in the private sector that I think will help in that, too, but I just hope that we can keep this effort going, Mr. Chairman.

Senator SPECTER. I hope we can, too, Senator Harkin. We could restate that hope probably all around the table.

Senator Mack, last question?

ATAXIA RESEARCH EFFORTS

Senator MACK. Yes; thank you, Mr. Chairman.

I would like to pose this question to Dr. Hall. The fiscal year 1995 Senate appropriations bill contained language encouraging the NINDS to continue research on the rare childhood disease, ataxia [AT].

I am grateful you included AT in the grant for neurogenetic disorders of childhood. Many scientists believe that AT research may hold answers about the link between cancer, immune deficiency, and neurological degeneration.

Is the science far enough long to fund the requests for applications grant dedicated solely to AT research?

Dr. HALL. We have some important clues. We know that AT can result from defects in any one of four genes, although the diseases caused by defects in the four genes appear to be clinically indistinguishable.

As you know, we think it is a defect in DNA repair, and the defect affects particularly cells in the cerebellum, which cause movement disorders in young children, hence the name ataxia. Why these cells are at risk, we do not know.

We have made important progress in related movement disorders, and a number of the genes for these diseases have now been cloned. We are sponsoring research aimed at cloning genes for AT itself.

As you also know, because it is a DNA repair enzyme, these children, and, in fact, the carriers of the disease, their mothers, are often at risk—the children for cancer, the mothers for breast cancer. So it is a general problem, in that sense.

I would point out that the first step is cloning the gene, and once we do that, then it is a problem in nerve cell biology, to understand why that defective gene leads to disease.

It is not always apparent, so it requires an effort by Dr. Collins and his coworkers, and the people we sponsor, to actually finding what gene is defective, and then we have to carry out the hard work to find out what that gene does to make these particular cells die.

It is also a point in which we intersect the interest of NCI, because of the increased incidence of cancer, and so we hope to work with them and with the genome center in working out what the basis is.

We have worked with the Children's AT foundation to sponsor a meeting which was held last summer. There was a clinical meeting, in January, which we have also been in touch with them about.

So we continue our interest in the disease. We have not put out an RFA for AT specifically, but it is included in RFA's for childhood genetic orders and also for movement disorders. So there is a lot of work going on in that area, and we are very hopeful about the results.

Senator MACK. Well, I appreciate those comments, and I appreciate the attention, and we will just keep working with you on this issue.

I thank you for your comments.

Dr. VARMUS. Thank you, Mr. Chairman.

ADDITIONAL COMMITTEE QUESTIONS

Senator SPECTER. Thank you very much, Senator Mack. We will have a fair number of questions submitted to you, Dr. Varmus, which will be directed to other members here as well for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

PRIVATIZATION OF THE CLINICAL CENTER

As part of Reinventing Government Phase II, DHHS has assembled a team to look at more cost effective ways of doing business in the NIH Clinical Center. One of the options the group will study is privatization of the NIH Clinical Center.

Question. Dr. Varmus, I understand that HHS is looking into the feasibility of privatizing the operation of the Clinical Center. What do you see as the pros and cons of this proposal?

Answer. Handing over the entire operations of the Warren G. Magnuson Clinical Center to the private sector will save approximately 1500 FTEs by transferring these employees to a private company. Certainly private management would provide flexibility in staffing and procurement not possible under current government regulations. However, having a private company manage the entire clinical research facility is not the only possible approach that could be used to improve Clinical Center efficiency. Any major change in the Center requires careful consideration. A detailed list of pros and cons follow:

Pros:

- Reduces govenment staffing by estimated 1800 FTEs below the FY 1996 President's Budget

- Makes it possible to adjust to research needs; allows a higher level of adaptability to accommodate major program shifts in the Institute's scientific programs, and permits more timely response to urgent new initiatives.

- Provides relief from federal procurement and personnel regulations, permitting cost savings in areas such as purchasing (for example, by permitting the Clinical Center to participate in non-governmental buying consortia).

Cons:

- There is no evidence that contracting such a complex organization acutally saves money. The NIH experience is that some contracts, such as those providing physician services, are more expensive than provision of services in-house.

- The Clinical Center undertakes very high risk, long term and expensive clinical trials. In many instances, efficient operation of a clinical protocol may differ from the efficient provision of similar services in a routine clinical setting. If a contractor has incentives to save money, conflicts may develop around issues of cost versus scientific standards which could compromise the quality of the programs.

- Some employees may not choose transfer to a private company. This has the potential to disrupt the NIH through "bumping" rights and could result in Equal Employment Opportunity and Civil Service actions.

- Contracting would require dual management systems for contract and government employees. Current federal contracting rules are quite specific and restrictive with respect to the interaction between government and contract employees; this could jeopardize the relationship between research staff within the Institutes and those employed within the Clinical Center. Recent problems with contracting the Clinical Center Dia Radialon Department provides an example of how dual management of contract and government employees can create conflict and disrupt the clinical research mission.

Conclusion:

The Clinical Center could benefit from increased flexibility in areas such as staffing, purchasing and contracting. It is not clear, however, that full scale private management of the Center would be the best choice for improving organizational efficiency. Issues related to employee benefits and rights will require clarification.

The Secretary of DHHS has organized an Options Team to review the various alternatives for improving efficiency at the Clinical Center. This team will present a final report to the Secretary through the REGO II oversight committee by January 1, 1996.

GOVERNMENT AND INDUSTRY SPENDING ON MEDICAL AND RELATED RESEARCH

Question. Dr. Varmus, as shown on the pie chart, total spending on medical and related research has increased from $10.8 billion in 1983 to $30.8 billion in 1993. During this period, total government spending has decreased as a percentage of the total, with NIH spending decreasing from 38 percent in 1983 to 32 percent in 1993. During this time private industry's share has increased from 39 percent to 50 percent. What factors account for the increasing expenditures by private industry and what implications do they have for government sponsored research?

Answer. There are several factors which account for this change. While we have no direct evidence, we believe much of it is due to the success of NIH's investment in basic research. We think that this has led to the recent proliferation of R&D-based small technology companies in the private sector. There are a number of technological and scientific breakthroughs that lend themselves to commercialization including: the molecular genetics explosion (PCR technology, cloning, splicing, site directed mutagenesis, etc.); monoclonal antibody technology; cell culture technology; advances in research of the immune system; designer drugs; and material sciences (device development). These breakthroughs have led to greater investments by venture capital and private industry.

There has also been a change in the way industry conducts its research. In the past, most of industry's R&D was conducted in-house. Over the past few years there has been a tendency to "purchase" this research. Industry finds it more productive and less costly to follow success rather than maintain in-house capability. Industry has come to depend on the government to fund basic research, which has led to the tremendous proliferation of technology currently being pursued. Therefore, the government needs to continue to vigorously pursue its efforts in the support of basic research, as well as applied, in those areas of lesser interest to industry.

GENE THERAPY

The National Center for Human Genome Research is the principal government agency responsible for locating and mapping the 100,000 genes carried by humans. Errors in genes are responsible for an estimated 3,000 to 4,000 hereditary diseases, including Huntington's Disease, Cystic Fibrosis, Muscular Dystrophy, and some forms of Alzheimer's Disease. Over the next 15 to 20 years, the National Center for Human Genome Research hopes to develop the tools to identify the genes involved in both rare and common diseases, hopefully leading to early detection of and prevention of the diseases and disorders.

Question. Dr. Varmus, I am familiar with work being done by Dr. Jim Wilson at the University of Pennsylvania. How many institutions around the country are involved in genetic research?

Answer. Since DNA is the heredity material of all free-living organisms, genetics research occupies a central place in biology and medicine. Thus, genetic research includes almost all of biological research, from taxonomy and evolution through applied medicine. For the same reasons, genetics research encompasses a wide variety of organisms, ranging from bacteria to plants to humans. In this sense, virtually every academic and research institution in the country can be considered to be involved in genetic research.

With respect to gene therapy research in particular, NIH has approved 93 human gene transfer protocols and an additional 11 are pending approval. These protocols are being conducted in over 35 institutions nationwide, including the program at the University of Pennsylvania.

Question. The scientist aspects of genome mapping are difficult enough, without adding the ethical, legal, and social issues it raises. How confident are you that we will have the wisdom and the will to manage the information that we discover? Will we be able to prevent insurance companies, for example, from denying coverage to a women with a defective gene for breast cancer? Or an employer from refusing to hire someone carrying a cystic fibrosis gene?

Answer. Addressing the ethical, legal and social implication of such efforts is an integral part of the Human Genome Project. In fact, approximately five percent of the total NCHGR budget is earmarked for the Ethical, Legal and Social Implication (ELSIz0 program which is focused on these issues. Genetic privacy and fair use of genetic information are priority areas of research for the ELSI program. One ELSI Working Group is engaged in the development of policy recommendations for use by legislators and regulators, and this Working Group formed an Insurance Task Force which produced a report, called "Genetic Information and Health Insurance". The recommendations included in this report have been forwarded to a variety of legislators and other policy makers. The ELSI Working

Group is now exploring other avenues that could lead to protecting individuals against discrimination in health insurance based on genetic information.

The ELSI Working Group has also recently formed a second task force called the Genetic Testing Task Force. This Task Force is examining the strengths and weaknesses of current practices and policies related to the development and delivery of safe and effective genetic tests and will make recommendations within two years.

The ELSI Working Group has also raised the issue of whether genetic-predisposition to disease is protected under the American with Disabilities Act (ADA). The U.S. Equal Employment Opportunity Commission's (EEOC) official definition of the term "disability" includes those individuals with a genetic predisposition to disease.

This year the ELSI Working Group also commented upon model legislation related to privacy of medical information, which included language about genetic privacy, and is now reviewing a new model for privacy legislation. In the coming year, this model legislation will be made available to federal and state legislators for their use in analyzing privacy legislation. All of these examples show that the dramatic genetics discoveries catalyzed by the Human Genome Project will be issued primarily for public benefit.

Question. Dr. Varmus, it is my understanding the NIH, in response to a request by you, is presently undertaking a review of the basic and clinical research related to gene therapy and you have selected a panel of experts to review the state-of-the-art with regards to the clinical components of gene therapy supported by the NIH. Upon review, I am dismayed that this panel does not include some the Nation's leading clinical researchers on gene therapy, such as Jim Wilson from the University of Pennsylvania. I think that is shortsighted not to include these individuals as part of the process which will determine the future direction of research and funding needs. Could you please provide me what the criteria was for selection of this panel; whether or not additional experts can be named to this panel; and, if not, what plans you have for taking the recommendations of this panel to those experts in the field conducting research in gene therapy for their consideration?

Answer. I have assembled a panel of outstanding scientists to review the entire gene therapy research enterprise. The panel's duties include: (1) surveying the various NIH Institutes and Centers to see what kind of gene therapy research they are conducting or plan to conduct; (2) listening to scientists from academic, government, and industrial laboratories who are leading the development of gene therapy; and (3) considering NIH-supported research programs in the context of investment made by other institutions and industry, including the biotechnology industry.

I have selected as members of the panel scientists with expertise in areas that are critical to the development of gene therapy, such a virology, gene expression, and clinical genetics. I have deliberately not selected as members scientists who are most

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likely to benefit immediately from the recommendations the panel might make. This includes such leaders in the field of gene therapy as Dr. James Wilson of the University of Pennsylvania. However, as an important part of its information gathering, the panel will be holding at least two meetings designed specifically to hear from clinical and laboratory researchers from universities, industry, and the government. Among these will certainly be individuals such as Dr. Wilson.

Once the panel has gathered the necessary information, it will make recommendations that will guide NIH in its program and budget planning. The NIH expects to obtain advice, for example, on how funds should be distributed among the research areas that affect gene therapy, such as the development of gene delivery systems, the regulation of gene expression, animal models of diseases, and others. We also expect the panel to help us decide whether we are placing the appropriate emphasis on each of the many diseases and organs that have been considered as potential targets for gene therapy and what mechanisms of funding would be most effective for NIH-sponsored research efforts. Other issues include the impact of gene therapy patents and licenses, and the need for public education about the science and ethics of gene therapy.

COMPARING NIH SPENDING ON INTRAMURAL AND EXTRAMURAL RESEARCH AND OTHER EXPENDITURES

Question. Dr. Varmus, NIH spending on extramural research far exceeds that for intramural research, yet other expenses such as those for building and facilities and administrative costs have increased as a percentage of the total NIH budget from 6.3 percent in 1987 to 7.6 percent in 1991, to an estimated 9.3 percent in 1996. What accounts for these increasing costs and what steps are you taking to streamline your operations?

Answer. In recent years there have been a variety of definitions for "Administration Costs", some of which include program costs, such as the intramural scientific program. However, as mandated by Section 408 of the Public Health Service Act, the NIH, including the National Library of Medicine, Fogarty International Center and the Clinical Center, cannot spend more than 5.5% of total appropriated funds on administrative expenses. Beginning with the report on FY 1987 expenses, an annual report has been sent to the Congress. The Research Management and Support activity, which comprises the major portion of NIH administrative expenses, has consistently been less than 5 percent of the NIH total, ranging from 4.3% of the budget in FY 1987, to 4.6% in FY 1994. In FY 1996, the RMS percentage of the total NIH budget decreases to 4.4 %.

Conversely, spending on Buildings and Facilities has increased significantly during this same period. Since FY 1987, NIH funding for Buildings and Facilities has expanded due to the one-time costs of construction and furnishing of capital equipment in both the Conte and Natcher Buildings, the upgrade of all animal facilities to meet American Association for Accreditation of Laboratory Animal Care (AAALAC) standards, and renovations to support expanded AIDS research efforts. Current efforts in this area center on replacing aging, deficient physical plants, many of which are 20 to 40 years old, undersized, and beyond their design life.

A thoughtful process for streamlining is underway at NIH. This streamlining was initiated with the Report of the NIH Resource Allocation Group, which provided a series of initiatives and efficiencies that could be pursued under several broad categories. These initiatives include designation of the Extramural Research Program as a Reinvention Laboratory; streamlining within the Intramural Research Program, based on the recommendations of the Intramural Program Review Committee; and reengineering of administrative processes.

COST SAVINGS RESULTING FROM NIH RESEARCH

Question. In 1994, NIH issued a report on the cost-benefit of medical research. The report cites 26 examples where NIH-sponsored research has improved the quality of life, reduce illness, and saved lives, which, in turn, resulted in cost savings. NIH estimates this yields 200% to 300% annual return on investment. While we cannot put a price tag on human life, I understand that NIH undertook an extensive study of the cost-benefits that flow from medical research. Would you tell us about that study and give this subcommittee some examples?

Answer. In a series of case studies published in 1993, the NIH identified 34 examples of clinical trials and applied research studies that have resulted in savings in treatment costs and reductions in lost productivity due to morbidity and premature death. Together, the examples yield an estimated annual potential savings ranging from $8.3 billion to $12.0 billion depending on assumptions regarding the number of new patients, efficacy, and per-patient costs of treatment. The savings will be replicated in future years because each example refers to the estimated savings over the remaining lifetime of a single cohort of patients who initiated screening or treatment for the subject disease or condition during one year.

In these case studies, the savings equal the difference between the estimated costs before an innovation is available and the estimated costs after the innovation is adopted. Every example includes changes in the direct costs of medical resources consumed in providing required health care in response to the illness or condition. A few of the examples include estimates of related non-medical costs associated with an illness such as custodial care, special diets, tutors, transportation, special equipment, and governmental and voluntary community support programs. Some, but not all of the examples, also include estimates of the effects of the innovation on indirect costs. Indirect costs are defined as the value of the productivity lost to society as a result of premature mortality or lost work days due to morbidity and are expressed as the dollar value of lost earnings.

In limiting the focus to savings in the direct and indirect costs associated with a disease, the case studies embody a conservative approach to placing a value on the benefits of biomedical research and development. They make no attempt to determine what society would be willing to pay for each innovation's expected contribution to additional years of life and to reductions in pain and suffering associated with a particular disease or condition.

The case studies are summarized in an NIH publication entitled "Cost Savings Resulting from NIH Research Support: A Periodic Evaluation of the Cost-Benefits of Biomedical Research" (2nd Edition, NIH Publication No. 93-3109, September 1993). Several are highlighted below along with the corresponding estimates of one-year savings (in 1992 dollars).

Development of a mass screening device for neonatal hypothyroidism spares nearly 900 newborns annually from a lifetime of arrested physical and mental development: $193.0 - $436.2 million.

Development of laser-based photocoagulation treatment for early stage diabetic retinopathy can arrest vision impairment and even blindness at a later stage: $1.18 - $1.58 billion.

Development of measures for preventing the recurrence of kidney stones among the estimated 198,000 susceptible patients: $436.2 - $872.4 million.

Demonstration in the Cardiac Arrhythmia Suppression Trial that treatment of survivors of myocardial infarctions with anti-arrhythmic drug therapy to suppress asymptomatic or mildly symptomatic ventricular arrhythmias was ineffective and potentially dangerous also led to cost savings: $78.1 - $104.2 million.

Demonstration that screening and medication for isolated systolic hypertension of the elderly leads to significantly fewer strokes and cardiovascular events including heart attacks: $29.1 - $48.5 million.

Development of a therapy that eradicates Helicobacter pylori, the bacterium that causes chronic gastritis and duodenal ulcers, provides a cure for individual lesions and prevents the customary life-long recurrence of peptic ulcers: $612.2 - $816.2 million.

Development of cisplatin in combination therapy for treatment of advanced stage testicular cancer significantly increases the survival rate and, thereby, reduces work days lost to premature mortality and morbidity: $134.0 - $178.7 million. Testicular cancer is the most common malignancy in 15-35 year old males and is the most frequent cause of cancer-related deaths in this age group.

Development of adjuvant therapy with levamisole and 5-fluorouracil (5-FU) for a type of cancer called Dukes' C. This adjuvant therapy significantly delays tumor recurrence and reduces patient risk of dying of recurrent colon cancer by one-third. Over 22,000 patients are diagnosed with this condition annually: $161.4 - $215.2 million.

Development of an improved vaccine for the prevention of Haemophilus influenza type b (Hib) disease in children 2 month to 5 years of age. Prevention of meningitis also protects children from a variety of neurological sequelae, including hearing loss, vision impairment, mental retardation and seizure disorders: $137.5 - $183.3 million. Hib is the leading cause of bacterial meningitis in the United States.

Development of an antiviral therapy using Acyclovir for newborn infants suffering from Neonatal Herpes Simplex. With early diagnosis this treatment can significantly reduce premature mortality and severe neurological impairment: $137.5 - $183.3 million.

Development of a combined treatment with prednisone and cyclophosphamide for patients suffering kidney disease resulting from lupus has been found to sustain life-supporting renal functions longer than the use of prednisone alone for more than 1,000 persons afflicted with this disorder each year: $89.8 - $119.7 million.

Development of an assay for routine screening of the Nation's blood supply for detection of HIV antibodies can save an estimated 891 transfusion recipients from HIV infection annually: $59.1- $78.7 million.

Question. So much of our investment in research pays dividends in cost savings. For example, dental research alone has saved society $60 billion in health costs and lost productivity over the past decade. Would you provide this subcommittee with a breakdown, by institute, of where we have made strides in recent years, and how those discoveries have resulted in improved quality of life and cost savings?

Answer. The benefits of biomedical research are realized on several dimensions. The benefits are seen in improvements in the diagnosis, treatment, and prevention of disease; enhancements in the quality of life through increases in functional capacity and reductions in pain and suffering; advancements in public health; and contributions to a stronger economy through health care cost savings. Attached is a listing by NIH Institute that shows where research achievements have been made in recent years and describes how these achievements have resulted in improvements in quality of life and cost savings.

NATIONAL INSTITUTE ON AGING (NIA)

Isolated Systolic Hypertension: Use of an inexpensive, safe antihypertensive medication to treat isolated systolic hypertension (ISH), which affects from 3 to 4 million older Americans, can significantly decrease the incidence of stroke, myocardial infarction, and sudden death.

- Improvements in Quality of Life: Reduction in strokes and severe cardiovascular events could greatly reduce functional disability and need for institutionalized care.

- Cost Implications: Use of antihypertensive medication to treat ISH could save the Nation up to $200 million annually in hospital and medical costs.

Falls and Hip Fractures: Recent studies have provided convincing evidence of the benefits of exercise and other interventions for maintaining independent function in older people. A recent study shows that falls, a major source of disability among older people, can be prevented. Scientists recently reported on a "targeted intervention" strategy with a variety of risk factors for falls--such as sedative use or multiple medication use--that reduces the rate of falls among older, frail individuals by at least 30 percent.

- Improvements in Quality of Life: Exercise, strength and balance training, and other proven means of reducing risk can markedly improve physical performance in both community-dwelling and very frail nursing home residents, as well as reduce the fear of falling and the physical and social decline and increased mortality associated with falls.

- Cost Implications: Fall-related injuries send almost 8 percent of people over age 70 to the emergency room each year. Acute care costs from hip fractures alone are about $10 billion annually and could double by the year 2020. Moreover, some 40 percent of people hospitalized for fall-related injuries cannot return home, but are discharged to nursing homes, adding even more to the health care bill.

Pneumonia and Influenza: Pneumococcal infection causes approximately 40,000 deaths annually in the U.S. A vaccine trial in a group of elderly nursing home residents demonstrated that a new influenza vaccine containing antigens conjugated to diphtheria toxoid was more immunogenic and produced greater protection from influenza infection in this population than the commercially available trivalent influenza vaccine with the same antigens. Administration of both vaccines is cost-effective.

- Improvements in Quality of Life: In older adults, mortality from pneumococcal bacteremia may be as high as 60 percent. Preventing pneumonia and influenza in older adults would improve overall health status among the elderly.

- Cost Implications: Use of the vaccines can prevent hospital admissions and deaths from influenza- or pneumonia-associated conditions.

Stress Incontinence: NIA-supported clinical trials have shown that pelvic muscle exercise and biofeedback can significantly reduce the problem of stress urinary incontinence in women aged 55 and older.

- Improvements in Quality of Life: At least one-fourth of the women over age 60 have some degree of stress urinary incontinence. The success of inexpensive and safe treatments will improve the quality of life of older women.

- Cost Implications: Because urinary incontinence is a significant risk factor for nursing home admission, the costs of this condition have been estimated to be as high as $10 billion annually.

NATIONAL INSTITUTE ON ALCOHOL ABUSE AND ALCOHOLISM (NIAAA)

Traffic Fatalities: Research and studies sponsored by the NIAAA established that increasing the minimum legal drinking age (MLDA) would reduce the number of traffic crashes and associated fatalities among young people. This information played a crucial role in establishing and upholding 21 as the MLDA throughout the U.S. Estimates of the lives saved due to raising the MLDA to 21 range from 166 to 1000 lives per year.

- Improvements in Quality of Life: Alcohol-related traffic fatalities are the number one cause of death for youth. Raising the minimum age has dramatically reduced alcohol-related driving deaths, especially among persons 16-20 years of age.

- Cost Implications: A conservative estimate of savings due to the higher MLDA ranges between $100 million and $600 million per year.

Fetal Alcohol Syndrome. Research has established that alcohol is a physical and behavioral teratogen, and that in utero alcohol exposure can produce a spectrum of deleterious effects, including Fetal Alcohol Syndrome (FAS). FAS prevention efforts have increased substantially in the past few years. The main component of such efforts is educational, and includes such diverse elements as warning labels on alcoholic beverage containers advising pregnant women not to drink because of the danger of birth defects; school- and community-based outreach and information campaigns, and targeted therapeutic interventions aimed at women whose drinking places them at increased risk of giving birth to alcohol-affected babies.

- Improvements in Quality of Life: FAS is 100 percent preventable through abstention from alcohol consumption during pregnancy. Refraining from alcohol consumption during pregnancy improves the health of the fetus and the resulting child.

- Cost Implications: Estimates of the incidence of FAS range from 0.3 to 1.9 per 1000 live births. The discounted lifetime cost associated with a single FAS case is on the order of $400,000, including both health care costs and lost productivity. The magnitude of this estimate clearly suggests that even marginally effective prevention measures will confer large net cost savings.

Alcoholism. Recent research on treatment for alcoholism has found that naltrexone, a pharmaceutical opiate antagonist, reduces the incidences of relapse by 58 to 72 percent among alcoholics who are simultaneously undergoing more conventional treatments.

- Improvements in Quality of Life: Conservative estimates indicate that one million individuals receive alcoholism treatment at least once during a given year and that, without naltrexone, 50 percent of these clients relapse at some time during the year. This drug has the potential to improve health outcomes for a large number of alcoholics by lowering relapse rates.

- Cost Implications: If relapse rates among those who receive naltrexone are reduced by 50 percent, and if half of those who relapse subsequently re-enter treatment, then the total number of alcoholism treatment episodes per year would be reduced by 5 percent. Using a conservative average cost of $2,000 per treatment episode yields an estimate of savings on the order of $125 million per year.

NATIONAL INSTITUTE OF ALLERGY AND INFECTIOUS DISEASES (NIAID)

Haemophilus influenza Type b: Since 1988, when new conjugate Haemophilus influenza type b (Hib) vaccines became available in the U.S., Hib decreased 95 percent among children under five. In addition, the technology used in the Hib vaccines, developed in large part by NIAID-supported investigators, is now being used to develop conjugate vaccines against other infectious agents such as pneumococci and meningococci.

- Improvements in Quality of Life: Before the introduction of effective vaccines against Hib, 1 in 200 U.S. children under five years of age developed invasive Hib disease and 60 percent of these children developed Hib meningitis. These significant reductions in incidence of Hib translate to increased health for young children and freedom from the serious sequelae of Hib.

- Cost Implications: Hib vaccines are conservatively estimated to save more than $400 million per year. These cost savings include reduced treatment costs for meningitis and related conditions, reduced lifetime custodial care costs for the more seriously affected children, and indirect costs of decreased lifetime earnings.

Neonatal Herpes: NIAID-funded investigators showed that acyclovir is an effective therapy for treating neonatal herpes, a severe infection that can lead to death and permanent neurologic damage in newborns of women with genital herpes simplex infections.

- Improvements in Quality of Life: The prevention of the sequelae of neonatal herpes means a reduction in infant mortality and morbidity.

- Cost Implications: It is estimated that acyclovir therapy for neonatal herpes can save as much as $184 million in reduced lifetime treatment costs and lost earnings for a one-year cohort of infected infants.

Acute Kidney Rejection: Approximately 9,500 kidney transplants are performed each year. While transplantation is highly effective and less expensive than maintaining a patient on dialysis, graft rejection is a major complication. NIAID-supported clinical research demonstrated that the drug known as T10B9 can reverse acute kidney graft rejection and provoke fewer and less severe side effects than currently available treatments.

- Improvements in Quality of Life: By preventing the rejection of transplanted kidneys with T10B9, thousands more patients will be able to benefit from the highly effective transplantation therapy and will suffer fewer deleterious side effects.

- Cost Implications: It is estimated that the use of T10B9 to treat acute kidney graft rejection could save approximately $40 million per year in reduced treatment costs, including shorter hospital stays, fewer side effects, and greater efficacy than the current standard therapy.

Pneumocystis carinii Pneumonia in HIV-infected Persons. Pneumocystis carinii pneumonia (PCP) is the most common opportunistic infection in HIV-infected persons. NIAID-supported studies have proven the value of a number of regimens for PCP prophylaxis, including trimethoprimsulfamethoxazole (TMP/SMX), aerosolized pentamidine, and dapsone.

- Improvements in Quality of Life: Prevention of this infection means fewer hospital stays and subsequently decreased medical costs for persons already burdened with a fatal disease. It holds out the possibility of more healthy days for persons with HIV.

- Cost Implications: Recent data show that the annual cost of preventing PCP with any of the above regimens is $1,300-$3,600 per person compared to $17,647 for each PCP hospitalization. Furthermore, 1989 data indicate that use of TMP/SMX or dapsone as initial prophylaxis instead of aerosolized pentamidine could save as much as $98 to $124 million per year in medical costs for every 100,000 persons receiving prophylaxis.

Hepatitis A. NIAID intramural investigators developed a strain of hepatitis A virus that was used in collaboration with industry to produce an attenuated vaccine. This vaccine is now available in 41 countries worldwide.

- Improvements in Quality of Life: Hepatitis A is probably the most widespread of all hepatitis diseases. Improvements in health allow people to lead more productive lives.

- Cost Implications: Hepatitis A is estimated to cost over $200 million annually in medical costs and lost wages in the U.S.

Hepatitis B. Viral hepatitis B is spread by many of the same mechanisms as HIV. In many respects, it is more serious than the more widespread hepatitis A in that it can persist for years after initial infection, and may lead to a chronic form of hepatitis and eventually to liver cirrhosis and/or liver cancer. NIAID formulated the hepatitis B vaccine, which was licensed in 1982.

- Improvements in Quality of Life: Prevention of this serious disease will lead to significant health improvements for those at particular risk, which includes persons with multiple sexual partners, injection drug users, health care personnel, and babies born to carrier mothers.

- Cost Implications: The estimated potential one-year savings in preventing acute or chronic illness ranges between $74 and $148 million.

Maternal-Fetal Transmission of HIV: The NIAID funded a clinical trial to evaluate the efficacy, safety and tolerance of AZT for the prevention of maternal-fetal transmission of HIV. The results showed that by administering AZT to HIV positive women during pregnancy, labor, and delivery, and to infants for six weeks postnatally, HIV transmission was reduced by two-thirds. Moreover, this trial has stimulated additional research on maternal-fetal transmission of HIV and has opened the door to the development of other strategies that may be less expensive and easier to administer, which may ultimately be critical in reducing maternal-fetal transmission of HIV globally.

- Improvements in Quality of Life: In 1994, the CDC estimated that between 1,000 and 2,000 HIV infected infants are born each year in the U.S. If the AZT regimen were used universally, the number of HIV infected infants could be reduced by two-thirds, equivalent to preventing transmission to 650-1,300 children annually.

- Cost Implications: Given the estimated cost of caring for a child with HIV and AIDS, and the median time to diagnosis and to death, a conservative estimate of cost savings is in the range of $86 to $172 million annually.

Bee Sting Allergy: NIAID improved the treatment regimen for bee sting allergy. The research demonstrated that conventional life-long therapy for bee sting allergy was not necessary. Therapy based on bee venom was shown to be effective and required only five years of treatment.

- Improvements in Quality of Life: These results will spare many persons the physical discomfort and financial burden of years of injections.

- Cost Implications: Major savings arising from the elimination of inappropriate treatment are estimated to be between $76 and $102 million per year.

NATIONAL INSTITUTE OF ARTHRITIS AND MUSCULOSKELETAL AND SKIN DISEASES (NIAMS)

Kidney Disease Associated with Lupus: Initially, lupus was treated with prednisone, a drug that did not necessarily prevent end stage renal disease from developing. A long-term clinical trial demonstrated that aggressive treatment using a combination of prednisone and cyclophosphamide was better at sustaining life-supporting renal function than prednisone alone. Subsequent to the report, combined cytotoxic drug and steroid regimens became accepted as standard medical care around the world.

- Improvements in Quality of Life: This therapeutic regimen prevents renal scarring, preserves kidney function and markedly reduces the need for dialysis or kidney transplantation.

- Cost Implications: Over a 10-year period, as much as $119.7 million could be saved per annual cohort simply as a result of diminished costs for treating lupus-associated kidney disease.

Hip Fractures: In a recently reported study involving more than 9,700 women over age 65, it was found that women can substantially decrease their risk of osteoporotic fractures if they begin taking estrogen within 5 years of menopause and continue to do so for the rest of their lives.

- Improvements in Quality of Life: Use of hormone replacement therapy, along with increasing calcium intake and exercise, can prevent osteoporotic fractures.

- Cost Implications: For 1991 alone, savings due to reduced incidence of fractures were estimated to be between $938-$980 million.

Total Hip Replacement (THR): At present, more than 120,000 artificial joints for hips alone are being implanted in the U.S. each year. A recent grant to a private sector investigator resulted in development of an ion implantation process applied to the surface of titanium balls (the articulating part of the prosthesis) to produce less friction and wear than unmodified titanium balls. This and other innovations have already been applied to several hundred thousand devices, and early retrievals show superior wear resistance.

- Improvements in Quality of Life: Total hip replacement is the most successful surgical procedure and provides immediate and substantial improvement in a patient's pain, mobility and quality of life. THR has permitted persons previously requiring wheelchairs to become fully mobile.

- Cost Implications: The average life of a replacement prosthesis is now 12 years. If researchers are able to increase the life of hip prostheses by only three more years, the number of surgical procedures needed could be reduced by 10 percent by the year 2020. This decrease would translate into potential savings for the Nation of $5.53 billion annually.

Psoriasis: The NIH initiated a clinical trial in which 1,200 patients who received the treatment known as PUVA—oral administration of the drug psoralen, followed by exposure to high-intensity UV light—were followed for 20 years. Although side effects from PUVA were found to exist, they were shown to be not so serious as to contraindicate its use for severe psoriasis. The FDA approved the use of PUVA in 1982.

- Improvements in Quality of Life: Almost 5 million Americans suffer from psoriasis; about 1 million of these have an especially severe form with lesions covering more than one quarter of the body surface. Since 1982, PUVA has become widely adopted, improving the physical and psychological well-being of thousands of patients.

- Cost Implications: A recent analysis has shown that PUVA treatment could save the Nation as much as $77.5 million for each annual cohort of patients.

NATIONAL CANCER INSTITUTE (NCI)

Breast Cancer: Breast cancer mortality in all American women declined 4.7 percent between 1989 and 1992, the largest short-term decline in the U.S. for this disease since 1950. For white women, there was a decrease in all age groups from 30-79. For white women aged 30-39, mortality decreased 8.7 percent during this period and between 1987-92, the overall decline was 17.8 percent. NCI believes several factors are involved in the decrease, including improved screening, early detection and use of adjuvant therapy. Especially for women in their 30s, advances in adjuvant therapy may have played a major role in the decline in mortality. Furthermore, advances in breast conserving surgery and reconstruction, use of antiemetics to control nausea caused by chemotherapy, improved pain control, use of cytokines to reduce side effects of drugs, and new drug-delivery systems that allow the patient to receive chemotherapy at home encourage patients to complete treatment programs.

- Improvement in Quality of Life: Breast cancer is the second leading cause of cancer death in women, and comprises about 30 percent of all female cancers with 182,000 new cases and 46,000 deaths from breast cancer estimated for 1995. Interventions for the medical, psychosocial, and disability-related sequelae of breast cancer diagnosis and treatment, especially in younger women and women at increased risk for breast cancer, provide for improved quality of life.

- Cost Implications: The total direct (health care) and indirect costs (days lost from work or other productivity) of breast cancer exceed $16 billion annually. There has already been a 5 percent reduction in mortality between 1989 and 1992, and a greater decline is expected in the coming years. This reduction in mortality translates into a cost savings in indirect costs of approximately $350 million per year in 1995 dollars.

Testicular Cancer: An estimated 7,100 cases of testicular cancer with 370 deaths are expected in 1995. Testicular cancer is the most common malignancy in 15-35 year old males and is the most frequent cause of cancer-related deaths in this age group. Between 1975 and 1985, the incidence of seminomas and nonseminomas (the two major tumor cell types) increased by 15 and 30 percent respectively. In contrast, mortality declined by 57 percent. In the mid 1970s cisplatin was added to the existing chemotherapeutic regimen of vinblastine and bleomycin in the treatment of young men with testicular cancer. This combination resulted in a complete response rate of 77 percent and a cure rate of 60-65 percent. In the absence of any other major advance, it is highly plausible that this treatment regimen is responsible for improved survival.

- Improvements in Quality of Life: Improvements in the cure rate from testicular cancer reduce mortality and enhance the quality of life.

- Cost Implications: An NCI cost-benefit analysis of cisplatin-based combination chemotherapy for testicular cancer showed an annual estimated economic value of $150 million in the U.S. Because the disease usually strikes young males, the savings were due to the future earning potential of the survivors.

Colorectal Cancer: An estimated 138,000 Americans will be diagnosed with colon cancer in 1995 with 55,300 deaths. About 20 percent will be diagnosed with Dukes' C stage disease, advanced colon cancer that has spread to adjacent lymph nodes. Surgical removal of the tumor and surrounding lymph nodes was the standard treatment for this cancer, but patients with Dukes' C colon cancer have a high recurrence rate and only a 30 to 40 percent 5-year survival rate if treated with surgery alone. Post-surgical treatment with levamisole and 5-fluorouracil significantly delays tumor recurrence and reduces the patient's risk of dying of recurrent colon cancer by one-third.

- Improvements in Quality of Life: Mortality from this cancer decreased by 17.4 percent between 1972 and 1992. These decreases may be attributed to increases in early detection with improved technologies and changes in treatment strategy that incorporate adjuvant therapy and radiation treatment. These advances also contribute to quality of life by reducing need for some invasive procedures. For example, today the colostomy (creation of an abdominal opening for elimination of body wastes) is seldom needed. New high technology diagnostic imaging techniques have replaced exploratory surgery for this cancer. In addition, use of new anti-nausea drugs increases patient compliance with chemotherapeutic regimens.

- Cost Implications: The direct (health care) costs of colorectal cancer exceed $9.0 billion annually in 1995 dollars.

HIV Blood Screen: NCI developed an assay which has led to routine screening of the Nation's blood supply for HIV antibody. The identification of HIV as the etiologic agent for AIDS made possible the development of a specific assay for the detection of HIV antibodies in the sera of individuals exposed to the virus. Donated blood units have been routinely tested for HIV using this procedure.

- Improvements in Quality of Life: The assay for screening HIV has helped ensure the safety of the Nation's blood supply. Conservative estimates indicate that 891 transfusion recipients are saved from HIV infection annually.

- Cost Implications: A savings of $59.1-$78.7 million in reduced incidence, treatment costs and premature mortality could result from this new testing procedure.

Tobacco Related Diseases: Approximately one-third of all cancer deaths in the U.S. are attributable to tobacco use, making it the leading preventable cause of cancer mortality in the U.S. Since about half of these deaths occur among people in middle age, tobacco is also the most significant cause of premature death. Reduction in cigarette smoking by encouraging smokers to quit or to prevent smokers from beginning is a high priority of NCI research efforts. An aggressive education and prevention program is aimed at reducing use of tobacco among American adults aged 18 and over from 26 percent today to below 20 percent by the year 2000.

- Improvements in Quality of Life: According to the 1989 report of the Surgeon General, decisions made by people through 1985 to quit or not to start smoking will have prevented or delayed 2 million smoking related deaths by the year 2000. Decreasing cigarette smoking also enhances the quality of life by lowering exposure of the population to environmental tobacco smoke. Children not exposed to secondhand smoke will avoid increased risks of respiratory illnesses and infections, impaired development of lung function, and middle ear infections. Infants born to women who do not smoke during pregnancy are less likely to die of Sudden Infant Death Syndrome.

- Cost Implications: Reducing tobacco use to 20 percent by the year 2000 would mean an annual savings in health care costs and productivity of $16 billion annually.

Pediatric Cancers: An estimated 8,000 new cases of cancer in children are expected in 1995 with 1,600 deaths. Treatment research has been responsible for the nearly 40 percent decline in mortality in cancer among children in the face of increased incidence rates for most of the cancer sites, including leukemia, Hodgkin's disease, non-Hodgkin's lymphoma, and soft tissue sarcoma. The decrease in mortality for children with cancer may be attributable to new combinations of chemotherapy, and advances in combined modality therapy.

- Improvements in the Quality of Life: Limb-conserving surgery coupled with advances in chemotherapy in children with osteosarcoma allows them to maintain a normal lifestyle. Psychological and social interventions help survivors of childhood cancers to cope with their unique problems as they become teenagers and adults.

- Cost Implications: Each year there is an annual savings of over $1 billion in terms of lifetime earning power.

NATIONAL INSTITUTE OF DENTAL RESEARCH (NIDR)

Fluoridation: Fluoridation has been the cornerstone of caries prevention. Along with other fluoride vehicles, better diet, improved oral hygiene and other preventives, such as dental sealants, it has contributed to major savings in health care costs.

- Improvements in Quality of Life: Findings from dental research have led to major improvements in the status of dental caries in U.S. schoolchildren. Specifically, the number of children (5-17 years) that are free from caries has increased from 49.89 percent in 1976 to 54.7 percent in 1988-1991. Also, the number of children (5-17 years) benefiting from protection against tooth decay due to the application of tooth sealants has increased from 8 percent in 1986 to 18 percent in 1988-1991, thus adding further benefits to those of fluoride.

- Cost Implications: Since 1979, the annual growth in per capita dental expenditures has slowed markedly. For 1992, estimated cost savings were approximately $4 billion; for the 14-year period from 1979-1992, cumulative savings were an estimated $60 billion.

HIV Infection: NIDR investigators have discovered that saliva contains a protein that prevents white blood cells from being infected by HIV—a finding which explains why there has been little or no evidence that AIDS is transmitted orally. These dental investigators hope to incorporate this protein into compounds that can be used to prevent initial infection by this deadly virus, such as barrier protection at other body sites. For patients already infected with HIV, the protective component could conceivably be injected into the bloodstream to protect circulating white blood cells from further HIV infection.

- Improvements in Quality of Life: Using the salivary protein (abbreviated "SLPI") as an agent injected into the bloodstream to prevent free virus from infecting circulating white blood cells could add to the defenses of the immune system, with potential for enhancing the quality of life and long-term survival of HIV-infected individuals.

- Cost Implications: SLPI used as a barrier compound applied at local mucosal sites during intercourse might effectively prevent sexual transmission of HIV and thus reduce the incidence of new cases. Used as an agent injected in the bloodstream to protect white blood cells, it could forestall the development of AIDS-associated opportunistic infections or other conditions which often require hospitalization or costly medications to treat.

Dental, Bone, and Joint Diseases: NIDR scientists have discovered molecules responsible for the growth and regeneration of teeth, cartilage, and bone, paving the way to new approaches for treatment. That knowledge is leading to the synthesis of specific compounds which have been shown to stimulate the regeneration of new bone and connective tissue in animal models. Also, recent studies have demonstrated the effectiveness of new cell therapies in which a person's own bone marrow cells are used to grow new bone. Yet other investigators have developed guided tissue strategies to regenerate bone at selected sites.

- Improvements in Quality of Life: Many bone and joint conditions are chronic degenerative disorders associated with pain and disability. At present, health care providers can offer some pain relief, but cannot prevent further deterioration. New approaches that promise biological regeneration, may actual reverse the disease process, restoring patients to health and well-being and productive lives in society.

- Cost Implications: Present estimates of the direct costs associated with bone and joint diseases are counted in the billions. For example, annual costs for osteoarthritis are $13 billion; jaw disorders $1 billion; traumatic bone fractures $16.5 billion; 10 year costs for osteoporosis are $45 billion. These costs can only increase given the aging of the population.

NATIONAL INSTITUTE OF DIABETES AND DIGESTIVE AND KIDNEY DISEASES (NIDDK)

Benign Prostatic Hyperplasia (BPH): Years of basic research on the prostate are providing the foundation for the development of drugs to treat BPH, the most common disorder of adult men and a leading cause of surgery. The first of these drugs to be approved by the FDA (1992) is finasteride (Proscar), an agent that prevents the conversion of testosterone to a form that causes prostate growth. NIDDK supported much of the basic research that led to an understanding of how testosterone affects prostate growth, as well as research to develop a precursor to finasteride. This precursor was used by industry to develop finasteride.

- Improvements in Quality of Life: Treatment of BPH at earlier stages lowers the risk of several debilitating complications such as frequent urination, urinary tract infections, bladder or kidney damage, bladder stones, and incontinence. The drug has been effective in many symptomatic patients and spares them the risk and cost of surgery. In addition, in some cases, surgery sometimes causes impotency, a major quality of life concern among men with BPH.

- Cost Implications: For a typical 70 year old male with a 10 year life expectancy, the medical management of BPH saves $1500 per case even if one assumes only a 20 percent efficacy of medical management.

Urinary Tract Stones. NIDDK-supported research has elucidated the metabolic abnormalities that underlie recurrent formation of different types of renal stones; developed diagnostic methods that permit identification of the type of pathologic process in a particular patient; and, led to the development of three relatively simple and inexpensive chemical agents for the prevention of recurrent urolithiasis in patients who are known stone formers. Of these agents, potassium citrate is effective in the prevention of the most common type of stones—those composed of calcium salts. In 1985, the FDA approved potassium citrate for the treatment and prevention of calcium stones.

- Improvements in Quality of Life: More than a million patients are hospitalized in the U.S. each year for the treatment of urinary tract stones. As a result of research findings, these patients have benefitted from a reduction in pain and an earlier return to normal activity.

- Cost Implications: Assuming that there are 198,000 candidates for potassium citrate therapy in the U.S., the potential national annual savings in the treatment of urolithiasis is estimated to be $530.8 million if all suitable patients receive this treatment.

Obesity: Last year, NIDDK-funded researchers discovered an obesity gene in mice. The product of this gene circulates in the blood and regulates body weight. Most exciting is the fact that a very similar gene also has been found in humans and is biologically active. A human obesity gene product has great potential to serve as a totally new kind of agent for regulating body weight in humans.

- Improvements in Quality of Life: Obesity has been termed an epidemic in this country, because the number of obese adults has increased by about one third in just one decade. Obesity is also increasing dramatically in adolescents. Over 50 million Americans now are affected. Obesity has a tremendous impact on health in this country because it is associated with many serious chronic medical complications, including heart disease, diabetes, stroke, and cancer. An effective treatment or preventive strategy for obesity would also lead to a substantial reduction in obesity associated diseases.

- Cost Implications: The current economic costs of the obesity epidemic are estimated at almost $70 billion annually, to which can be added an estimated $33 billion spent each year on weight reduction products and services for a total of approximately $100 billion annually. If the rate of increase in obesity continues as it has over the past decade, the impact on health costs will become even more staggering.

Diabetes Complications: The Diabetes Control and Complications Trial has clearly shown that major eye, kidney, and nerve complications of insulin-dependent diabetes can be prevented or ameliorated by better control of blood glucose levels. A major focus of current research is attempting to apply prevention and containment strategies to non-insulin-dependent diabetes as well. Outreach efforts are underway to educate the public and the medical community of these important results.

- Improvements in Quality of Life: Diabetes is a chronic, insidious disease affecting 14 million Americans. It is the sixth leading cause of death from disease and also leads to major disabilities. Unchecked, complications often result in blindness, kidney failure, and amputation of limbs. Many diabetes related complications can now be controlled, delayed, or prevented.

- Cost Implications: Diabetes is a critical public health problem estimated to cost between $90 and $130 billion annually. Prevention of diabetes could potentially save much of this huge health care price tag.

Ulcer Disease: NIDDK grantees have devised a regimen of combined antibiotic therapy and bismuth tablets that effectively eradicates the ulcer-causing bacterium H. pylori. Results from a later clinical trial have shown that an even higher percentage of ulcers were healed when an antisecretory agent was combined with two antibiotics and bismuth. Ulcer recurrence can now be virtually prevented by this approach, which alters the natural history of peptic ulcer disease.

- Improvements in Quality of Life: The pain and disruption of recurrent gastric ulcers can now be easily and inexpensively prevented. The practical benefits for the five million Americans afflicted with ulcer disease are enormous.

- Cost Implications: The new treatment of duodenal ulcer disease with antibiotics has proven to be one of the most cost-effective forms of therapy for any chronic disease and has a projected saving in health care costs of $400-$800 million annually.

Hereditary Kidney Disease: NIDDK-supported scientists are engaged in research to develop genetic treatment for the most common form of hereditary kidney disease. Recent studies have isolated the gene for polycystic kidney disease (PKD)—a leading cause of end-stage renal disease (ESRD). PKD is one of the most common genetic disorders in humans, affecting approximately 1 in 1,000 individuals. Two new avenues also have opened for treatment of other kidney diseases. A new therapy has been shown to protect diabetics against deteriorating kidney function, and yet another new therapy can decrease the progression of glomerular disease to renal failure.

- Improvements in Quality of Life: Preventing kidney deterioration and delaying kidney failure would significantly improve the quality of life for patients prone to kidney diseases. For example, patients who advance to ESRD require either dialysis therapy or kidney transplantation to survive. Dialysis, which must be done regularly, greatly interferes with a person's work and personal life and is associated with significant morbidity. ESRD patients have approximately eight times more hospital days for the various complications of their condition compared to all Medicare patients over age 65. Transplantation also entails problems, including the need for immunosuppressive therapy. There is also the ever present possibility of transplant rejection or failure of the transplanted kidney.

- Cost Implications: Survival for patients with permanent kidney failure requires either dialysis therapy or kidney transplantation. The cost to Medicare of end-stage renal disease (ESRD) is $6.8 billion per year; the total cost to the Nation of treating all ESRD cases is estimated at $9.5 billion annually. Preventing end-stage renal disease will have an enormous impact on Medicare costs in the future.

NATIONAL INSTITUTE ON DRUG ABUSE (NIDA)

Drug Addiction: NIDA research has led to the development of new medications to treat drug addiction. These include methadone, the most widely used and most effective medication for treating heroin addiction; the narcotic antagonist, naltrexone; and most recently, the opiate agonist, levo-alpha-acetylmethadol (LAAM). LAAM offers significant advantages over current methadone therapy because it only needs to be taken by the patient every other day.

- Improvements in Quality of Life: Having a variety of treatment medications available has improved the quality of life for the patients by enabling treatment practitioners to match patients to treatments and effectively meet patient needs.

- Cost Implications: Several conservative estimates show that for every $1 invested in addiction treatment, there is a return of between $4 and $7 in reduced drug-related crime, criminal justice costs, and theft. When savings related to health care are included, total savings can exceed costs by a ratio of 12 to 1.

Smoking: It is currently estimated that 400,000 people die each year from lung cancer related to cigarette smoking. Research in this area demonstrated the addictive potential of nicotine and provided basic neuroscience data on the biology of nicotine addiction. This information subsequently made possible the development of the nicotine patch, which was tested by NIDA intramural and extramural scientists, and is now widely used to aid in cessation of smoking.

- Improvements in Quality of Life: The nicotine patch offers smokers an effective, research-based smoking cessation tool that can help reduce the chance of developing lung cancer.

- Cost Implications: The cost of smoking was estimated at $72 billion in 1990. If only 10 percent of the current smokers quit, there would be savings of at least $7.2 billion per year.

HIV/AIDS: NIDA research has shown that a variety of interventions can reduce drug use and prevent the spread of HIV/AIDS. For example, NIDA researchers have demonstrated that street-based outreach can facilitate entry into treatment. While approximately 60 percent of out-of-treatment drug abusers recruited had previously been in treatment, the remaining 40 percent had never been in treatment. NIDA researchers have also shown that multi-faceted risk reduction programs can produce large and significant decreases in HIV risk behavior among injection drug users, even among those who continue their drug abuse. Among actively injecting addicts admitted for detoxification, the use of potentially contaminated syringes has declined from 51 percent in 1984 to 7 percent in 1992. Further decline in unsafe injections were seen in addicts who participated in underground syringe exchange programs.

- Improvements in Quality of Life: Over 30 percent of AIDS cases, reported to the Centers for Disease Control and Prevention (CDC), are linked to injection drug use. In addition, a recent analysis of CDC data found that drug abusers are the new avenue for the spread of HIV into the heterosexual population. Facilitating entry into drug abuse treatment and changing risky drug use behaviors have helped improve the quality of life for the drug addicts themselves and also helped the public at large by targeting this avenue in the spread of HIV/AIDS.

- Cost Implications: Several studies have estimated the lifetime cost of treating a person with AIDS. These estimates range from $70,000 to $147,000. Applying the most conservative cost estimate ($70,000) to the number of AIDS cases related to injection drug use (120,000) would realize cost savings of $8.4 billion.

Pain: The discovery by NIDA researchers of opiate receptors and naturally occurring opiate peptides in the brain started a revolution in the field of neuroscience and has led to significant enhancements of the clinical efficacy of opiate analgesia and in the ability to treat chronic and acute pain. This fundamental research has facilitated the development of newer opiate medications and is currently leading to the development of opiate treatments that have fewer side effects. NIDA researchers also pioneered the use of spinally-administered analgesics to control pain in humans, resulting in more effective pain management for cancer patients and others with severe intractable pain.

- Improvements in Quality of Life: Discoveries and enhancements in the ability to treat pain have dramatically improved the lives of millions of people. They have resulted in better pain management for people undergoing surgical procedures and people with both chronic and acute pain. Particularly for millions of people with chronic pain, these discoveries have meant the difference between an inability to function and the ability to work and lead a normal productive life.

- Cost Implications: Chronic intractable pain results in over 400 million lost work days/year. Additional days are lost by family members and friends who care for the chronic pain patient. The costs/year of chronic pain are estimated to be $79 billion. If even half of the chronic pain patients are adequately treated, this may result in a savings per year of at least $39.5 billion.

Drug Screening: One of the most important tools for detecting, preventing and treating drug abuse is the technology to detect drug use. NIDA researchers were responsible for the development of urine screening technologies and standards to detect illicit drug usage, which has made possible the national drug-free workplace initiative and provided health care providers with a significant diagnostic instrument. The availability of urine screening technologies has facilitated the detection of on-the-job drug use and subsequent interventions to prevent drug use at job sites across the Nation.

- Improvements in Quality of Life: Technologies currently under development, such as hair and sweat testing, will allow for greater flexibility and less invasive and more readily accepted testing.

- Cost Implications: Drug abuse costs businesses at least $60 billion annually in lost revenue. The savings realized by having a workplace drug program are at least 10 percent, or $6 billion. This does not include costs due to accidents and fatalities as a result of using drugs while on the job. Forty percent of fatalities in the workplace are due to the use of drugs. Therefore, businesses and industries that have a workplace drug program realize a potential savings of about 93 percent of the costs per employee associated with health and liability insurance, lost productivity, and accidents.

NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT (NICHD)

Neonatal Health: Antenatal steroids provide a rare example of a new medical treatment that not only keeps premature infants alive but yields cost savings. Until the NICHD sponsored a Consensus Development Conference on the topic, there was no clinical consensus regarding the efficacy and safety of giving corticosteroids to pregnant women at high risk of preterm birth. Detailed review of the data showed that antenatal steroids can induce the maturation of fetal lungs and prevent serious complications, including respiratory distress syndrome, necrotizing enterocolitis, and intracranial hemorrhage. Most importantly, these drugs significantly reduce mortality among these preterm infants.

- Improvements in Quality of Life: Antenatal steroids are indicated for women at risk of premature delivery with few exceptions and will result in substantial decrease in neonatal mortality and morbidity.

- Cost Implications: If the average rate of antenatal steroid use for premature births was increased from just 15 percent to 60 percent, the Nation could save $157 million in annual hospital and physician expenditures.

Disabilities: The National Center for Medical Rehabilitation Research (NCMRR) of the NICHD supports the development of exciting new advances in biotechnology involving computer technology, the miniaturization of electronic circuitry and sensors, and innovations in materials science and bioengineering. These advances have joined together to make possible a new generation of prostheses (limb replacements) and orthoses (systems to enhance limb functioning) being developed by NCMRR-supported scientists. Recently, NICHD-supported researchers made available to lower limb amputees a prosthesis that uses embedded pressure and temperature sensors to provide a sense of touch and temperature sensation that helps the wearer maintain balance and walk better. Other NCMRR-supported research is demonstrating how miniaturized computers can control patterned electrical stimulation of nerves in the legs to allow people with severe spinal cord injury to walk.

- Improvements in Quality of Life: This rapidly developing field of research is increasing the number of new assistive devices that could enable as many as 8 million persons to partially or completely overcome their disabilities and start functioning in a variety of ways never before possible. The new assistive devices can enable individuals to more fully engage in a variety of life-enhancing activities ranging from work to education, recreation and sports, travel, and community and family life.

- Cost Implications: Disabilities, in general, cost the Nation about $169.4 billion a year, in terms of direct medical expenditures, direct services expenditures, and transfer payments (e.g., social security, income support). With nearly one-fourth of the 32 million Americans with disabilities able to benefit to varying degrees from the new assistive devices, it is fair to say that these advances could save the Nation hundreds of millions, if not billions, of dollars in direct and indirect costs.

Acquired Mental Retardation: The Hemophilus influenzae type b (Hib) vaccine was developed in NICHD intramural laboratories and brought to the market with NIAID and NICHD support. Using conjugate vaccine technology pioneered by NICHD scientists, this vaccine is given safely to infants as young as two months of age. This breakthrough vaccine technology circumvent many of the adverse effects of earlier childhood vaccines and overcomes the problems of weak immune response in infants and young children. Just as importantly, the new conjugate vaccine technology developed by NICHD scientists is now being applied to the development of conjugate vaccines against numerous other pathogenic organisms that cause a variety of common dread diseases. The anticipated successful development of effective vaccines using this new conjugate vaccine technology will make this achievement one of NIH's major contributions to public health.

- Improvements in Quality of Life: This new vaccine is credited with virtually eliminating the 10,000 to 15,000 cases of H. influenzae type b meningitis that have occurred annually in the U.S. in recent years. This disease has been the leading cause of acquired mental retardation, a common cause of deafness, and the cause of nearly 800 deaths in children each year. It is anticipated that effective use of this new vaccine will eradicate this dread disease in the American population.

- Cost Implications: The initial cost estimates of the savings associated with the new H. influenzae type b vaccine show that it could save up to $460 million annually. This savings includes reduced expenditures for health care services, the reduced cost of custodial care, and improved productivity.

CLINICAL CENTER (CC)

Safety of Nation's Blood Supply: NIH Clinical Center scientists have played leadership roles in improving the safety of the Nation's blood supply by demonstrating the utility of screening tests to prevent transfusion-associated infection with hepatitis B, hepatitis C, and the AIDS virus. However, despite the increased safety of the U.S. blood supply, a substantial number of cases of transfusion-associated "non-A, non-B, non-C" hepatitis cases continue to occur. Clinical Center scientists have contributed to the identification of a new agent, the hepatitis G virus (HGV), that appears to be responsible for another fraction of the cases of non-A, non-B, non-C post-transfusion hepatitis. The development of a screening assay to prevent transfusion-associated infections with this newly identified agent will further enhance the safety of the Nation's blood supply.

- Improvements in Quality of Life: The implementation of screening tests to decrease the risk for transmission of hepatitis B and the agent(s) of non-A, non-B hepatitis prevented approximately 20 million cases of post-transfusion hepatitis from the years 1970-1990. Approximately 30 million Americans have received at least one transfusion. Prior to 1990, approximately 5 percent of transfusion recipients would have developed post-transfusion hepatitis. With the new safety procedures, the rate of post-transfusion hepatitis has fallen to approximately 0.2 percent. Thus, these new procedures have prevented approximately 1,440,000 cases of hepatitis. These efforts to improve the safety of the blood supply have substantially increased the quality of life for transfusion recipients.

- Cost Implications: Based on a Consensus Conference on surrogate assays to prevent post-transfusion hepatitis, the lifetime costs of a single case of chronic post-transfusional hepatitis are approximately $30,000. By preventing 1,440,000 such cases, these interventions have saved $4.32 billion in health care costs.

NATIONAL INSTITUTE ON DEAFNESS AND OTHER COMMUNICATION DISORDERS (NIDCD)

Cochlear Implants: One million individuals who are severely hearing impaired as well as those who are profoundly deaf can now benefit from a cochlear implant. Cochlear implants, with recently developed multichannel technology and superior speech processing techniques, are able to restore the sense of hearing, including the ability to use the telephone.

- Improvements in Quality of Life: The cochlear implant has benefitted thousands of Americans and is now recognized as appropriate for one million more. The cochlear implant can enable the individual who has sudden deafness maintain his or her professional life by using the phone and interacting through speech with colleagues and friends. The cochlear implant also allows a child who has either limited, or no residual hearing, and who cannot benefit from hearing aids, to acquire oral/aural language if that is the choice of the parents.

- Cost Implications: The availability of the cochlear implant is projected to result in potential cost savings of $100 million over the next five years.

Ototoxicity: Many individuals are unknowingly and unpredictably at risk for deafness or hearing impairment due to sensitivity to commonly used aminoglycoside antibiotics. NIDCD-supported scientists have recently determined the genetic and biochemical basis for deafness caused by aminoglycoside ototoxicity. The current progress has created a sudden opportunity to identify many individuals who are at risk for drug-induced deafness.

- Improvements in Quality of Life: By correctly identifying those at-risk, the deafness caused by ototoxicity can be prevented. This will ensure a continuing quality of life for those individuals who would be susceptible to losing their hearing as well as their economic security and ease of interpersonal communication.

- Cost Implications: Approximately 500-1000 individuals are affected annually. Expressed in rehabilitation and/or retraining costs and lost time from work, a reasonable estimate of lifetime cost savings would be $50 million per year.

Middle Ear Infections (Otitis Media): NIDCD-funded scientists are developing a candidate vaccine to combat otitis media, the most common cause of acquired hearing impairment in childhood. The vaccine will be based on an endotoxin from nontypeable Haemophilus influenzae, a major pathogen in middle ear infections among young children. In a breakthrough, scientists have been able to detoxify the endotoxin, making it a suitable candidate for a vaccine that would stimulate the production of human antibodies against this type of influenzae.

- Improvements in Quality of Life: Otitis media is the most common childhood infection requiring antibiotic therapy and results in more emergency room visits than any other childhood illness. A vaccine to fight otitis media would reduce the physical, emotional, and economic toll on young infants and children and their families, and would reduce the patient load at clinics and emergency rooms.

- Cost Implications: A vaccine against the nontypeable Haemophilus influenzae would significantly reduce the estimated $1 to $3.5 billion per year cost of this disease.

NATIONAL INSTITUTE OF ENVIRONMENTAL HEALTH SCIENCES (NIEHS)

Breast Cancer: NIH-supported researchers isolated the long-sought breast cancer susceptibility gene, BRCA1. An inherited susceptibility to breast cancer due to mutations in BRCA1 is thought to account for about 5 percent of breast cancer cases overall and about 50 percent of early-onset (women under 30) breast cancer cases. The discovery of BRCA1 brings us closer to understanding the origin of breast and overlap cancers.

- Improvements in Quality of Life: The most immediate benefit from this discovery will likely be the development of a screening assay to identify women who have inherited a defective BRCA1 gene. The discovery has the potential to lead to the early diagnosis, treatment, and possible prevention of breast cancer, which will enable thousands of women to lead healthier, more productive lives.

- Cost Implications: Early diagnosis, more effective treatments, and possible prevention will potentially yield millions of dollars in health care savings.

Prostate Cancer: Prostate cancer is one of the most common forms of cancer in men. Of the 244,000 prostate cancer cases diagnosed in the U.S. yearly, about 60,000 result in death. In addition, physicians estimate that about 9 million men in the U.S. over age 50 have prostate tumors that are never detected. NIEHS-supported scientists recently identified a gene (KAII) involved in the control and metastasis of prostate cancer. This is only the second human gene known to block metastasis.

- Improvements in Quality of Life: Because of the difficulty in distinguishing between prostate tumors that are likely to spread and lead to death and prostate tumors that are likely to remain dormant or inactive, physicians often surgically remove the prostate gland, a procedure that can lead to impotence and incontinence. Understanding the role of the KAII gene may lead to improvements in diagnosis and treatment of prostate cancer and may allow many men to avoid surgery and its risks.

- Cost Implications: The most immediate benefit of the prostate cancer gene discovery is likely to be the development of a test to predict which cancers are likely to metastasize and thus cause death. Such knowledge could lead to more effective treatments and significant health care savings.

Lead Poisoning: Although leaded gasoline, a major source of lead in our environment, has been removed from the marketplace, exposure to lead continues to be a pernicious health risk to children. Lead poisoning results from the ingestion of contaminated drinking water, exposure to soils or dusts containing high amounts of lead, and eating paint chips containing lead. NIEHS-supported research has been instrumental in discovering the sources of lead in the environment, the severe effects of lead on behavior and cognitive development, and methods for preventing these effects. NIEHS is now conducting a clinical trial on the lead chelating agent known as Succimer to determine if the drug can be effective at lower blood lead concentrations. To date, no treatment is available for subclinical health effects at the lead levels targeted in this trial.

- Improvements in Quality of Life: More effective treatment may prevent or ameliorate the tragic sequelae of lead poisoning in children—damage to the brain, nerves, red blood cells, and digestive system.

- Cost Implications: Lead poisoning has been estimated to cost the U.S. approximately $14 billion annually in direct medical costs and reduction in income potential. Any improvement in treatment has the potential to reduce this burden. In addition, Succimer is given orally instead of intravenously, and thus does not require recurring and costly hospital treatments.

Environmental Risk Assessment: There is considerable debate and controversy regarding current risk assessment practices for environmental agents. The debate arises from uncertainties associated with the use of default assumptions in estimating risks. NIEHS is at the forefront of biological and computational research aimed at strengthening the scientific foundation on which risk assessments are based. Improved risk assessments will reduce the suffering caused by environmentally induced diseases and lessen the health care burden associated with them.

- Improvements in Quality of Life: Risk assessment is a preventive strategy. Improved risk assessments are critical because of the 70,000 chemicals in commerce today with little or no toxicological data. NIEHS research on mechanisms and predictive methods will lead to rapid and accurate methods for determining which chemicals are harmful to humans and which ones are safe.

- Cost Implications: Improved risk assessments will lessen the health care burden associated with environmentally induced diseases and also lessen the economic costs associated with unnecessary regulation.

NATIONAL EYE INSTITUTE (NEI)

Diabetic Retinopathy: The Diabetic Retinopathy Study and Early Treatment Diabetic Retinopathy Study demonstrated the effectiveness of laser treatment for diabetic retinopathy.

- Improvements in Quality of Life: Previously, 50 percent of those with diabetic retinopathy with high risk characteristics were blind within 5 years. NEI-supported research has now demonstrated that currently recommended treatments are over 95 percent effective in preventing blindness, thereby maintaining the quality of life for those with this serious complication of diabetes.

- Cost Implications: It has been estimated that laser treatment saves $1.2 - 1.6 billion per year.

Retinopathy and Prematurity: The Cryotherapy for Retinopathy of Prematurity Study demonstrated the effectiveness of cryotherapy in halting the progression of the abnormal proliferation of blood vessels in the retinas of very premature infants.

- Improvements in Quality of Life: Until recently, approximately 500 premature infants were blinded by retinopathy of prematurity (ROP) each year. Cryotherapy is currently the only treatment that shows substantial benefit in eyes with ROP. Long-term follow-up of patients treated by cryotherapy for ROP is currently in progress to assess the effect of treatment on the preservation of vision and improvement in quality of life over the patients' lifetime.

- Cost Implications: It is estimated this treatment generates about $38 - 65 million in savings to society each year.

Optic Neuritis: The Optic Neuritis Treatment Trial established that oral corticosteroids were not effective in treating optic neuritis, an acute debilitating inflammation of the optic nerve that affects primarily women. Researchers also found that the use of intravenous steroids followed by a short course of oral corticosteroids was effective in delaying the progression to multiple sclerosis, which often occurs in these patients. They subsequently found that magnetic resonance imaging can be used effectively in these patients to predict those who will progress to multiple sclerosis.

- Improvements in Quality of Life: Over half of the 25,000 Americans with first-time optic neuritis will eventually develop multiple sclerosis. Treating first-time optic neuritis patients with a combination of intravenous and oral corticosteroids significantly reduces the risk of developing multiple sclerosis.

- Cost Implications: Annual savings could be approximately $26 million in treatment costs.

Corneal Transplantation: The Collaborative Corneal Transplantation Study showed that donor-recipient tissue matching was not effective in reducing rejection of transplanted corneas. However, ABO blood group matching was effective in this regard.

- Improvements in Quality of Life: Nearly 120,000 corneal transplants are performed each year in the U.S. The knowledge that donor-recipient tissue matching is not necessary has facilitated finding suitable matches for patients and has spared them the delays and increased costs that would have been entailed with tissue matching.

- Cost Implications: Had the more costly HLA tissue typing become the standard practice, the cost of corneal transplantation would have risen by about $1,000 per case, or $120 million in additional costs annually.

Ischemic Optic Neuropathy: The Ischemic Optic Neuropathy Decompression Trial demonstrated that decompression surgery for ischemic optic neuropathy, the most common cause of sudden visual loss in older Americans, was no better than careful follow up, and may even be harmful.

- Improvements in Quality of Life: Knowledge from this research has improves the quality of life of patients encountering this form of sudden visual loss by preventing an unnecessary surgical procedure and its attendant risks and potential complications and spares them the economic burden of a surgical procedure.

- Cost Implications: It is estimated that $30-$70 million will be saved annually by not performing this operation.

NATIONAL LIBRARY OF MEDICINE (NLM)

Biomedical Information. Many programs of the NLM are designed to facilitate or ensure that the results of biomedical research are transmitted to health professionals. In this way, the nation's investment in R&D contributes to human health and the quality of Americans' lives. Disease prevention and health care delivery depend on accurate and up-to-date scientific and medical information. To increase the body of knowledge that will enhance patient outcomes and reduce health care costs, the NLM is improving the accessibility of this information. One technical measure of the increased accessibility is the more than three-fold increase in the number of user codes in its computerized system of medical literature—from 30,000 in 1989 to 100,000 in 1994.

- Improvements in Quality of Life: The greater dissemination of scientific and medical knowledge through NLM's outreach programs will help enhance the health and quality of life for many more Americans, including those in remote areas. Telemedicine will also bring the latest advances in research to rural physicians and enhance their ability to provide state-of-the-art care to their patients.

- Cost Implications: Access to biomedical information provided by NLM's programs has important health-enhancing and life-saving consequences for patients as well as important benefits in terms of reduced health care costs.

Biotechnology Information. NLM's National Center for Biotechnology Information (NCBI) is a key component of the scientific infrastructure for carrying out molecular biology and biotechnology research. By assembling and distributing the NIH GenBank sequence database and by providing state-of-the-art sequence analysis tools, NCBI assists both academic and industrial scientists in the fast-paced field of gene discovery. NCBI maintains the world's foremost collection of all known DNA sequences, now numbering 230,000 sequences and 237,000,000 base pairs from over 5,000 different species. Over 35,000 sites have accessed NCBI data over the past year and every day some 15,000 queries are processed by NCBI computers, many involving complicated comparisons of single sequences against the entire database. NCBI also has played a key role in analyses of several disease genes, including the neurofibromatosis (NF1) gene, a tumor suppressor gene implicated in colon cancer, and most recently, the gene responsible for Kallman syndrome, a human genetic disease characterized by the unusual association of infertility and a lack of the sense of smell.

- Improvements in Quality of Life: NCBI has pioneered extremely fast and accurate sequence search techniques and, as part of the High Performance Computing and Communications initiative, makes this advanced technology freely available to the biotechnology and biomedical community. GenBank has been doubling in size every 20 months and in the coming year will grow even faster with the addition of 300,00 human cDNA clones which will be produced through collaboration with a university and a pharmaceutical company. The agreement is unprecedented in establishing a project with the express purpose of creating an open, non-proprietary resource to benefit the entire biomedical community in the search for genes responsible for human disease. NCBI's role will be to ensure that these data, as well as the rest of the database, are made immediately available to the public.

- Cost Implications: Use of computer software and databases in research demonstrates the essential role of computer algorithms and databases in identifying and understanding human disease genes. Identification of disease genes can lead to prevention, early diagnosis, and improved treatments, all of which will result in health care cost savings.

NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE

Stroke: Research has made possible new medical and surgical methods to prevent stroke in people with specific, known risk factors. In 1990, preliminary results of the Stroke Prevention in Atrial Fibrillation (SPAF) study indicated that active treatment with aspirin or warfarin lowers the risk of stroke in patients with atrial fibrillation by between 50 and 80 percent. In early 1994, results demonstrated that for most people under 75 with atrial fibrillation, and for those over 75 with no additional stroke risk factors such as high blood pressure or heart disease, aspirin provided adequate protection.

- Improvements in Quality of Life: Preventing stroke through these noninvasive and relatively inexpensive means contributes to quality of life among elderly Americans by helping to preserve their functionality and independence.

- Cost Implications: Stroke affects 500,000 people each year and is the third leading cause of death in this country. Stroke kills about 20 percent of those stricken; many of those who survive are disabled, often requiring nursing home care and extensive rehabilitation in addition to the initial hospitalization. Total costs associated with stroke are estimated at $25 billion per year. Each advance in the prevention or treatment of stroke decreases the burden of stroke. For example, the SPAF study yields a potential savings of $200 million based on preventing an estimated 20,000 to 30,000 strokes each year.

Parkinson's Disease: Parkinson's disease involves degeneration of the cells that produce dopamine. In most cases the cause of the degeneration is unknown, and treatment options are limited and often unsatisfactory. Replacement of dopamine with L-dopa has been the standard therapy for the past 40 years, but the drug has limited effectiveness and undesirable side effects. L-dopa also does not alter the underlying progression of the disease and for many patients it is only a relatively short-term therapy. NINDS-supported scientists have demonstrated the benefit of another drug, deprenyl, for the early treatment of Parkinson's disease. Scientists are also pursuing other promising approaches: implantation of cells engineered to produce dopamine; surgery to relieve inhibition of brain areas that direct movement; and, use of specific growth factors to protect dopamine cells and to help them recover.

- Improvements in Quality of Life: The development of drug alternatives and longer-range cellular replacement approaches will help improve motor functioning and reduce other disabling conditions associated with Parkinson's disease.

- Cost Implications: As many as 500,000 Americans—one percent of those over 50—suffer from Parkinson's disease. Its economic burden, currently estimated at $6 billion per year, will increase as the aging population increases.

Head and Spinal Cord Injury: The first treatment to improve recovery from spinal cord injury came from the NINDS-supported National Acute Spinal Cord Injury Study (NASCIS). Study results announced in 1990 showed that patients who received the drug methylprednisolone within eight hours of injury regained significantly more motor and sensory function than untreated patients or patients receiving another drug. This breakthrough came after years of testing different drug regimens to inhibit the secondary damage that occurs in the hours following initial trauma to the spinal cord.

- Improvements in Quality of Life: Over 2 million head injuries occur each year. Approximately 100,000 victims die and 500,000 require hospitalization. Traumatic brain injury (TBI) is considered the principal cause of permanent brain damage in young adults and results in 5,000 new cases of epilepsy annually. Reducing the extent of spinal cord injury and improving the chances of recovery increases functioning, independence, and overall quality of life.

- Cost Implications: The economic costs of TBI alone approach $25 billion per year. Each year, 10,000-12,000 Americans injure their spinal cord, often suffering some degree of paralysis, loss of sensation, or even death. Treatment, rehabilitation, lost income, Medicare, and other costs for spinal cord injuries approach $10 billion annually. Treatments that preserve some function in as few as 5 percent of spinal cord-injured patients could result in an estimated annual cost savings of $20 million.

Epilepsy and Seizures: In the U.S., an estimated 2.5 million people, or 1 percent of the population, have epilepsy. For many, medications are sufficient to control their seizures, but an estimated 200,000 people continue to have seizures more than once a month. Results announced in 1993 from a NINDS-supported trial demonstrated that diazepam (administered orally) at times of fever effectively and safely prevents febrile seizure recurrence. Children who received treatment had a 44 percent reduction recurrent seizures. Another NINDS study found that phenobarbital, administered to children following a febrile seizure, was not effective in reducing the risk of another seizure. Further, evidence from the study suggested that use of the medication could adversely affect cognitive development. In selected cases, surgery to remove brain tissue associated with seizure activity significantly reduces the need for medication and improves the quality of life for the patient. NINDS continues to conduct and support clinical studies to evaluate surgical therapies for patients and to further address issues such as the development of criteria for patient selection and evaluation of long-term outcome.

- Improvements in Quality of Life: Reducing the risk of recurrent seizures can improve health, ease anxiety, and enable people with epilepsy to lead fuller and healthier lives.

- Cost Implications: The estimated cost of epilepsy exceeds $3 billion annually.

Brain Hemorrhage in Very Low Birthweight Babies: An estimated 20-40 percent of very low birthweight infants are at risk for bleeding in the brain, a condition known as intraventricular hemorrhage (IVH). In 1994, NINDS grantees announced that very low birthweight babies treated within 6-12 hours of birth with a drug called indomethacin are less likely to have IVH. The study also showed that when IVH does occur in treated patients, it is less severe, and therefore, less likely to cause extensive brain damage.

- Improvements in Quality of Life: Preventing brain damage in low birthweight babies will improve the chances of normal development and provide a healthier start on life.

- Cost Implications: Preventing or lessening brain damage resulting from IVH can reduce the costs associated with low birthweight and developmental problems.

NATIONAL INSTITUTE OF NURSING RESEARCH (NINR)

Alzheimer's Disease: Investigators recently tested a program of mental stimulation exercises to be administered to Alzheimer's patients by family caregivers in the home. The exercises were designed to improve the patient's cognitive functioning. When these exercises were administered for an hour every day, the Alzheimer's patients showed improved mental functioning while results from the control group showed the continued mental decline typical of the disease.

- Improvements in Quality of Life: This relatively simple program slows the progression of Alzheimer's disease symptoms, allowing the patients to live more independently at home and letting caregivers spend their time more productively on their work or other family responsibilities. Caregivers themselves reported lower levels of stress.

- Cost Implications: An estimated 4 million Americans have Alzheimer's disease, and these numbers are growing as the population ages. Efforts are underway to help Alzheimer's patients preserve their independence for as long as possible, thus delaying more costly types of care, such as institutionalization.

Hip Fractures: It has been shown that external hip pads worn over the hip joints in side pockets of an undergarment have the potential to prevent hip fractures by absorbing the energy of falls. A key issue is whether older people, who are at high risk for falls, will wear the pads. NINR-supported research shows that older people would wear the pads if they were redesigned to make them thinner.

- Improvements in Quality of Life: The potential to avoid costly, life-threatening hip fractures is important, and compliance with basic safety precautions and use of protective devices, such as the hip pads, is key to lowering costs and avoiding loss of quality of life.

- Cost Implications: A quarter of a million hip fractures occur annually in the U.S. to people 65 years and older, at an estimated cost of $7 billion.

Chemotherapy: While chemotherapy is an important treatment for cancer, it is frequently associated with highly uncomfortable and possibly dangerous side effects such as severe nausea and vomiting. Nausea can lead to complications such as anorexia, dehydration, and depression, and patients may become reluctant to continue this life-saving treatment. NINR-supported research is addressing ways to control the side effects of chemotherapy through behavioral desensitization techniques. Research has shown a connection between increased pretreatment resting heart rate and post-treatment levels of reported nausea, knowledge that may help in determining which patients will benefit most from this behavioral intervention.

- Improvements in Quality of Life: Strategic use of behavioral techniques has the potential to provide patients with an alternative or a supplementary approach to anti-nausea medication in counteracting unpleasant effects of life-saving chemotherapy treatments. This helps assure that patients will obtain the full benefits of the chemotherapy while enhancing their quality of life and allowing them to conduct their normal daily activities.

- Cost Implications: The ability to predict negative responses to treatment will allow interventions to be targeted only to patients at risk for nausea and vomiting, thus avoiding unnecessary remedial treatment. This intervention will also help patients obtain the full benefit of the costly therapy. All of these outcomes have significant implications for savings in health care costs in terms of faster recovery, continued productivity, and decreased need for treatment and care.

Premature Labor: NINR-supported investigators have tested a model program to prevent premature labor among low-income African American women, who are at increased risk for delivering low birthweight babies. Expectant mothers in the model program received health monitoring and education regularly by telephone, in addition to routine prenatal care.

- Improvements in Quality of Life: The number of low birthweight deliveries was reduced by 36 percent. The severe life-long disability or death that often occurs with low birthweight can also be reduced.

- Cost Implications: The U.S. spends $2 billion to care for low birthweight infants. Health-care costs for children weighing less than 5.5 pounds at birth can be as much as $21,000 a year. In contrast, the same costs for children of normal weight at birth average $2,842. While low birthweight infants account for 7 percent of all U.S. births, expenditures for their care can amount to 57 percent of costs for all newborns. Therefore, prevention of low birthweight can result in significantly reduced neonatal health-care costs.

Early Hospital Discharge: An NINR-funded clinical trial of a program designed to allow earlier hospital discharge by substituting a portion of the hospital care with comprehensive home follow-up care by nurse specialists was tested on three groups of women undergoing in-patient surgical procedures. The patients were prepared for discharge with information briefings, home visits were conducted, and 24-hour telephone assistance from nurses was made available.

- Improvements in Quality of Life: The women had fewer rehospitalizations and expressed greater satisfaction with their care.

- Cost Implications: Compared with the control groups, cost savings of 29% were achieved for women who had cesarean births; 38% for diabetic mothers with newborns; and 6% for women undergoing hysterectomies.

NATIONAL CENTER FOR RESEARCH RESOURCES (NCRR)

Biotinidase Deficiency: In association with several other NIH Institutes, NCRR supported laboratory and clinical studies of disorders of human biotin metabolism. The studies found that children lacking the enzyme biotinidase are unable to recycle the vitamin biotin. The deficiency can be fatal, and it can cause a wide variety of other serious health problems, including motor and mental retardation, seizures, hearing loss, breathing problems, visual abnormalities, coma, feeding difficulties (vomiting/diarrhea), and enlarged liver and spleen. The deficiency of biotinidase can now be treated with supplementary sources of the vitamin biotin at an approximate cost of 20 cents per day.

- Improvements in Quality of Life: This finding has led to a protocol for screening all newborns and treating those at risk for early death, seizures, comas, and retardation due to biotinidase deficiency.

- Cost Implications: Savings will come from reduction in treatment costs, care taking, special education costs, and lost earnings. Depending on the extent of adoption of this screening procedure, annual savings range from $5.4 to $7.2 million.

NATIONAL INSTITUTE OF GENERAL MEDICAL SCIENCES (NIGMS)

Colon Cancer: Basic research on how yeast and bacteria repair errors in the copying of their genetic material contributed to the exciting discovery in late 1993 and early 1994 of two genes that are defective in a common form of colon cancer.

- Improvements in Quality of Life: This research points the way to tests that will tell people with a family history of such cancer whether they have inherited the defective gene. Those who have the gene can be advised to undergo regular diagnostic screening, and those who have not inherited the gene will be spared the anxiety associated with being at increased risk for colon cancer.

- Cost Implications: The two genes are thought to be responsible for about 90 percent of all cases of this type of colon cancer.

Amyotrophic Lateral Sclerosis (ALS): Years of NIGMS-supported basic research on molecules that remove a harmful form of oxygen from cells enabled scientists to capitalize on a discovery in an unrelated field—amyotrophic lateral sclerosis (ALS), or Lou Gehrig's disease. When it was reported in early 1993 that ALS is linked to a defect in superoxide dismutase, the enzyme that removes the harmful oxygen molecules from cells, scientists drew upon the body of knowledge about the structure and function of this enzyme that has been amassed since the 1960's. If researchers had waited until the ALS gene was discovered before doing fundamental research on the enzyme the gene encodes, it might have taken another 10-20 years to get where we are today.

- Improvements in Quality of Life: Because of the ready availability of detailed information on superoxide dismutase, prospects are good for improved diagnosis, genetic counseling, and possible preventive treatments or gene therapy for ALS.

- Cost Implications: Estimates of the number of people affected by ALS range from 20,000-30,000. Their medical care costs around $300 million each year.

Vancomycin-Resistant Bacteria: The antibiotic vancomycin has been used for 25 years to treat infections caused by bacteria that are resistant to penicillin-type drugs or in patients who are allergic to these drugs. Recently, however, strains of bacteria have emerged that are also resistant to vancomycin. This is of particular concern in long-term care facilities and burn centers, where a penicillin-resistant form of Staphylococcus is often found. Extensive study by NIGMS grantees of the chemical reaction by which vancomycin binds to, and weakens, the bacterial cell wall has revealed an explanation for resistance to the drug in some strains of bacteria. The scientists have also identified a bacterial enzyme that may be a good target for a drug that could reverse the resistance.

- Improvements in Quality of Life: This research could save lives that are lost due to bacterial resistance to the "drug of last resort," vancomycin. It could also help scientists devise ways to combat the continuing problem of bacterial resistance to antibiotics.

- Cost Implications: In addition to saving lives, this research could lead to shorter and, therefore, less costly hospital stays.

Hypertension: About 20 percent of adults in the U.S. have essential hypertension, making it a major health problem in this country. To facilitate studies of the genetic aspects of this complex disorder, an NIGMS grantee has produced a "knockout" mouse model for human hypertension. Knockout mice, which are engineered to contain modifications in specific genes, enable scientists to study the role of a gene within a living organism. The scientist used the mouse model to demonstrate a direct, causal relationship between the maintenance of blood pressure and the expression of two major regulatory molecules.

- Improvements in Quality of Life: The new model should greatly increase scientists' ability to study and combat hypertension.

- Cost Implications: This research could lead to savings in the cost of treating hypertension, which is estimated to be $18.2 billion per year. This estimate includes the cost of hospitalization, medication, and lost wages due to this disease.

Polymerase Chain Reaction: NIGMS support laid both the conceptual and methodological foundations for the polymerase chain reaction, or PCR. Using PCR, scientists can amplify a single molecule of DNA—of bacterial, viral, plant, or animal origin—up to 100 billion times within a few hours. PCR has become a pivotal technique in basic research as well as in a large number of industrial applications.

- Improvements in Quality of Life: PCR is being used for genetic and infectious disease testing, forensic testing, plant and animal breeding and disease testing, and food product safety testing. Furthermore, PCR is an essential technology in the Human Genome Project, which holds promise for stimulating rapid growth in the medical diagnostics industry and, eventually, for the development of new pharmaceuticals and for gene therapy.

- Cost Implications: There are currently more than 1,300 biotechnology companies in the U.S., accounting for $10 billion in revenues and employment of 100,000 people. Virtually all of these companies use PCR for some aspect of their research, product development, or services, and several dozen companies exist solely as a consequence of PCR. The use of PCR by so many companies has, in turn, spawned the development and sale of chemicals, instruments, and other products that support PCR.

NATIONAL CENTER FOR HUMAN GENOME RESEARCH (NCHGR)

Human Genome Project: During the last year, the first goal of the Human Genome Project was reached—the genetic map was completed. This map dramatically speeds up the search for human disease genes. In fact, the rate at which such genes have been identified has accelerated drastically in the last three years, including genes for early onset breast cancer, Alzheimer's disease, and colon cancer. As a consequence, genetic tests to detect the estimated 1 million Americans at high risk of colon cancer are now under development.

- Improvements in Quality of Life: The first benefit from the discovery of a disease gene is the development of a genetic test that can identify individuals at risk for the disease, long before symptoms appear. For many diseases, this allows people to take measures that may delay the appearance of the disease or even prevent it all together.

- Cost Implications: The NCHGR is a young center and the Human Genome Project was only begun in 1990. Consequently, discoveries funded by NCHGR have for the most part not yet reached the stage of development where significant cost savings can be demonstrated. However, the promise of such savings in the future is great. An analysis of the economic impact of the discovery of the colon cancer gene has been conducted using the limited information about cost available at this time. This analysis compared the cost of treating colon cancer versus genetic testing and preventive colonoscopy for individuals at high risk, based upon a strong family history. Years of productive life lost to cancer were also taken into account. This analysis showed that genetic testing in this high risk group was likely to be cost-effective.

NATIONAL HEART, LUNG, AND BLOOD INSTITUTE (NHLBI)

Hydroxyurea and Sickle Cell Disease: Black Americans who suffer the painful, debilitating effects of sickle cell disease, an inherited blood disorder that primarily affects blacks, can now look forward to better health. After years of research, NIH researchers discovered the first effective treatment since the condition was identified 85 years ago. Hydroxyurea can relieve the pain and reduce the number of episodes that people with sickle cell disease suffer.

- Improvements in Quality of Life: The burden of sickle cell disease can be lightened for the tens of thousands of people who suffer its excruciating pain and whose day-to-day lives are frequently disrupted by its symptoms.

- Cost Implications: Treatment with hydroxyurea also reduces the number of transfusions and hospitalizations and may lead to as much as $350 million in health care savings.

Heart Disease: Middle-aged women have faced a terrible dilemma—whether or not they should take hormone replacement therapy as they go through menopause. There was evidence that hormone therapy guards women against heart disease, but it also was believed to increase their chance of getting cancer. Now, NIH research provides women and their doctors new information to help them decide about hormone therapy. A major clinical trial, called PEPI, showed that women can safely take this therapy and reduce their risk of heart disease.

- Improvements in Quality of Life: Heart disease is a cause of pain, anxiety, and disability for its victims. This relatively simple preventive measure may spare many women this suffering.

- Cost Implications: All the costly interventions used to treat established heart disease will be delayed, and may be completely avoided, by women taking hormone replacement therapy.

Asthma: Research offers new hope that babies who develop asthma could be identified in their first year of life. Scientists studying children since birth identified a unique wheezing pattern that indicates a predisposition to asthma. This finding will enable doctors to intervene earlier in the course of the disease to prevent its damaging effects. As a result, NIH-supported scientists are one step closer to detecting asthma before it damages a child's lungs for life.

- Improvements in Quality of Life: Earlier diagnosis and treatment of asthma can prevent many of its manifestations and enable children to lead full lives, both at school and at play.

- Cost Implications: In 1992, asthma was estimated to cost the Nation $6.2 billion, $3.6 billion of which was direct treatment costs. Because parents can now take simple steps to prevent their children's breathing crises, costly visits to emergency rooms can be virtually eliminated.

Cystic Fibrosis: Life expectancy has soared for Americans with cystic fibrosis, the most common inherited disease among U.S. whites. Children and young adults with cystic fibrosis produce a thick, sticky mucus that clogs their lungs and leads to life-threatening infections. Basic research on the nature of this mucus led to development of an enzyme that breaks up the mucus so that it can be coughed up. It is now available as the new drug Pulmozyme.

- Improvements in Quality of Life: Cystic fibrosis patients can breathe easier and lead fuller lives as a result of this breakthrough.

- Cost Implications: Mucus that can be coughed up is mucus that cannot harbor the chronic infections that are a primary cause of the high treatment costs of patients with cystic fibrosis.

Heart Attack: When a heart attack hits, time counts. Delays can mean damage to heart muscle and death. A new assay for subforms of the enzyme creatine kinase MB has been shown to detect a heart attack within 2 hours.

- Improvements in Quality of Life: About 5 million Americans a year go to a hospital emergency room fearing that they are having a heart attack. Now almost two-thirds will be able to go home rather than to a coronary care unit, while others will be able to get the urgent treatment they need.

- Cost Implications: We can now save a substantial amount of the approximately $4 billion spent each year to care for patients who have not, in fact, had a heart attack.

FOGARTY INTERNATIONAL CENTER (FIC)

Hemophilus influenza type B: Epidemiological studies have demonstrated that Native American children have a high incidence of meningitis due to bacteria called Hemophilus influenza type B. Although the infection can be treated with antibiotics, meningitis is a severe disease and can lead to complications such as mental retardation and other neurological ill effects in later life. For this reason, prevention of meningitis with immunization in these infants and children is a high priority.

- Improvements in Quality of Life: Researchers have shown that vaccination with Hemophilus influenza type B vaccine prevented meningitis in Navaho infants and children. Furthermore, vaccination reduced the number of children who carried the bacteria in the throat, a potential source of transmission of infection to others.

- Cost Implications: Widespread use of this vaccine should be a major advance in providing better health care and reducing health care costs.

Tuberculosis and AIDS: Tuberculosis (TB) is the greatest cause of death in the world from any single infectious disease and is increasing worldwide. A randomized clinical trial involving symptom-free HIV-seropositive individuals demonstrated the efficacy of Isoniazid in decreasing the incidence of tuberculosis and delaying the onset of AIDS.

- Improvements in Quality of Life: These findings suggest that Isoniazid prophylaxis should be considered for HIV-seropositive individuals and that this treatment may also be appropriate for tuberculosis-negative patients in areas where this disease is endemic.

- Cost Implications: In the U.S., 5-10 percent of HIV-infected individuals may develop active tuberculosis within the first year. Isoniazid therapy will potentially improve the clinical management of HIV infections and reduce costs related to TB management and care.

Vitamin A and HIV/AIDS: FIC studies conducted in collaboration with NICHD suggest that maternal vitamin A deficiency contributes to mother-to-child transmission of HIV. Scientists studied 567 HIV-infected pregnant women, analyzed in four groups based on vitamin A concentrations. As maternal serum vitamin A concentrations fell, the rate of infection in their infants increased steadily, from 7 percent in the women with the highest vitamin A concentrations, to 32 percent in those mothers with the lowest.

- Improvements in Quality of Life: Increasing the vitamin A intake in HIV-positive pregnant women may help reduce transmission of HIV and enhance the healthy status and outlook for many children.

- Cost Implications: These findings may have significant implications for the development of cost-effective measures to reduce the risk of HIV from mother to child through nutritional intervention.

Down Syndrome and Leukemia: Down Syndrome is one of the most common genetic diseases and is the most prevalent cause of mental retardation in the U.S. Down syndrome patients also suffer disproportionately from a number of other diseases that are found in the general population, including leukemia and neural degeneration. The gene for acute myelogenous leukemia no.1 (AML1) now has been located in a region of a human chromosome known to be involved in Down syndrome. Research is underway to determine the role of this gene in the malignant process.

- Improvements in Quality of Life: The information gained from this study should lead to a rational basis for treatment and prevention of leukemia associated with Down syndrome.

- Cost Implications: Improvements in the treatment and prevention of leukemia associated with Down syndrome will lead to substantial cost savings.

Heart Failure: Heart failure causes an array of debilitating symptoms, including shortness of breath, fatigue, weakness, and pain from swollen limbs. Scientists have found that patients with chronic heart failure lived longer and avoided many hospitalizations when treated with the ACE inhibitor enalapril.

- Improvements in Quality of Life: Not only did the enalapril treatment make patients feel better, it also improved their survival and kept them out of the hospital.

- Cost Implications: Cost savings associated with reduced hospitalizations for heart failure are estimated at $1 billion per year.

NATIONAL INSTITUTE OF MENTAL HEALTH (NIMH)

Manic-Depressive Illness: Research that led to the use of lithium to treat manic-depressive illness is one of the remarkable successes of modern medicine. The earliest American controlled studies of lithium were conducted by NIMH intramural investigators in 1968 and 1969. They established the safety, effectiveness and treatment conditions for lithium for manic depressive illness. The Federal role was critical, because lithium was an inexpensive, non-patentable medication, and hence not commercially attractive to the pharmaceutical industry.

- Improvements in Quality of Life: Prior to the introduction of lithium, persons with this illness spent, on average, one quarter of their lives institutionalized; when not hospitalized, these persons experienced marked losses of productive capacity. In the pre-lithium era, an estimated 1 in 6 patients with manic-depressive illness died by suicide. Today, the careful administration of lithium can prevent most episodes of manic depression, allowing patients to lead essentially normal lives. Moreover, the suicide rate among lithium-treated patients, is comparable to that seen in the population at large (less than 1 percent).

- Cost Implications: Lithium therapy saves the U.S. economy $6 billion annually, and has saved more than $145 billion since 1970. These savings reflect both a reduced need for extensive hospitalizations and other treatments, as well as the restored productivity of wage-earners.

Schizophrenia: The introduction of the unique, "atypical" antipsychotic drug known as clozapine (Clorazil) has dramatically helped persons suffering from schizophrenia. Because clozapine helps many schizophrenics who do not respond to other available medications, the mechanisms through which it acts in the brain are of particular scientific interest. NIMH-supported research identified a new class of receptors for the neurotransmitter dopamine that are specific targets of clozapine. These particular receptors are greatly increased in the brains of patients with schizophrenia and NIMH is currently examining differences in these receptors.

- Improvements in Quality of Life: Because of clozapine treatment, thousands of patients with schizophrenia are able to leave mental hospitals, and in some cases, to return to school, hold a job, and live independently.

- Cost Implications: A recent study estimated that clozapine maintenance for schizophrenia saves an average of $23,000 per patient annually, for a total savings to the Nation of approximately $1.4 billion each year for the estimated 60,000 patients now receiving clozapine. The savings are realized primarily through the reduction in need for hospitalization.

Clozapine Treatment: NIMH-sponsored research findings support proposals to reduce the frequency of blood monitoring in clozapine-treated patients, particularly after the first 6 months of treatment.

- Improvements in Quality of Life: This reduced blood monitoring would also increase the number of potential patients using the drug, some of whom currently avoid the treatment due to the weekly drawing of blood.

- Cost Implications: Reducing the blood monitoring from weekly to monthly would save 75 percent of the cost of safety monitoring, approximately $5,000 per year per patient, resulting in cumulative savings of $225 million per year in the U.S. based upon an estimated 60,000 patients currently receiving clozapine.

Depression: The development of a new class of antidepressants, known as selective serotonin reuptake inhibitors (SSRIs) has dramatically benefitted many people suffering from depression. Drugs in this class include Prozac, Paxil, Effexor, and Zoloft, and their advantage is that they lack many of the undesirable side effects of older antidepressants. NIMH basic research on the molecular biology and pharmacology of serotonin receptors in the brain established the science base for the development of these drugs, provided the impetus for investment and gave pharmaceutical researchers the knowledge base and methodological tools to develop the first of these drugs. In addition, since this class of drugs was introduced, NIMH clinical research has determined that SSRIs are effective treatments for other mental disorders in addition to depression, including obsessive compulsive disorder, bulimia, premenstrual syndrome, and elective mutism.

- Improvements in Quality of Life: SSRIs, which have less potential for lethal overdose than earlier antidepressants, are estimated to prevent 300-450 suicides per year. Additional lives are saved because SSRIs do not impair driving as do the older antidepressants or benzodiazepines.

- Cost Implications: Because this class of antidepressants is so new, it is not possible to estimate potential cost savings.

Caregivers for Alzheimer's Patients: NIMH research on a multifaceted mental health treatment program developed for people providing care for family members with Alzheimer's disease showed that this program enabled caregivers to keep patients at home longer. This significantly reduced the need for hospitalizations.

- Improvements in Quality of Life: Delaying institutionalization of persons with Alzheimer's disease maintains the quality of life of the patient and significantly eases the financial burden to the family.

- Cost Implications: Nursing home costs for people with Alzheimer's disease can be reduced by an estimated $17,000 per patient by providing a range of mental health treatments for the family members who care for these patients. Programs designed for other groups of caregivers and their mentally ill relatives will likely produce similar savings.

Alzheimer's Disease: Alzheimer's disease is the most common and tragic form of mental impairment in old age and is the fourth leading cause of death among elderly people. A recent study supported by NIMH and NIA has found that it may be possible to use brain scans viewed by positron emission tomography (PET) to see signs of mental deterioration in people who are developing Alzheimer's disease, even though their symptoms will not become apparent for years. In this study, people without signs of Alzheimer's disease, but who had inherited the Apo-E4 gene, and were therefore at high risk of developing the disease, had brain changes similar to the more pronounced changes seen in patients with Alzheimer's disease.

- Improvements in Quality of Life: Early detection of Alzheimer's disease is critical in order to be able to test potential treatments for slowing or halting the progress of the disease.

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- Improvements in Quality of Life: About 5 million Americans a year go to a hospital emergency room fearing that they are having a heart attack. Now almost two-thirds will be able to go home rather than to

- Cost Implications: The economic burden of Alzheimer's disease has been estimated at $58 billion each year ($20 billion in direct costs, $38 billion in informal costs).

Premature Infants: Approximately 400,000 premature infants are born in the U.S. each year, many requiring intensive, extended periods of care. NIMH research discovered that premature infants that receive tactile stimulation gain weight faster and develop their nervous systems more rapidly, allowing them to be released from the hospital much sooner than those in control groups not receiving stimulation.

- Improvements in Quality of Life: These advantages persisted—an 8-month follow up study found that those preemies that received the touch supplementation continued to show better physical and mental development, as well as a significant decrease in neurological signs.

- Cost Implications: On average, $5,000-$6,000 per premature infant is saved in hospital costs, yielding total cost savings of $2-$2.4 billion per year.

Autism: An intensive treatment program for children with autism was compared with a control group of children who received a much less intensive intervention.

- Improvements in Quality of Life: After seven years, the children who received the intensive treatment demonstrated significantly higher functioning as indicated by higher IQ scores, a higher proportion of subjects in regular education settings (47 percent vs. 0 percent), and lower behavior problem scores, than did children in the control group.

- Cost Implications: Based on estimates for special education and mental health treatment costs, this intervention would save $11,500 per year for each autistic child who completes this intensive intervention.

ALZHEIMER'S DISEASE

Question. Along the same lines, a recent report to the White House Conference on Aging found that postponing the onset of Alzheimer's Disease by 5 years would reduce the incidence of the disease by half, and save as much as $50 billion a year in health care costs. Where do we stand in our efforts to find a cure or treatment for Alzheimer's Disease?

Answer. Alzheimer's Disease (AD) currently affects an estimated four million older Americans and their families, causes enormous personal suffering, and costs the nation billions of dollars each year; NIH devotes over $300 million annually to Alzheimer's Disease research. Without the development of new treatments, cures, or preventive approaches to this dreaded disease, the number of individuals and families devastated by AD will likely increase up to fivefold within the next 50 years. Consequently, we face a growing public health crisis unless we can develop interventions to halt or slow the progress of this disease.

Recently, apolipoprotein E4 (ApoE4), a blood protein whose gene is located on chromosome 19, has been associated with increased risk for AD. This extremely important observation has been confirmed in a number of laboratories and is the first report of a major biological risk factor of the disease. For the first time epidemiological studies of AD will now have a biological marker for identifying populations at high risk for AD and following them with the hope of finding other risk factors. At the same time, this research has opened the door for new thinking about developing treatment based on the biology of the disease process. The exact role of ApoE4 in AD pathogenesis is still a matter of hypothesis. However, should it be directly involved in susceptibility, this protein would then become an attractive target for interventions. In addition, there are many laboratories currently involved in the identification of other genes associated with increased incidence of AD.

Until the late 1980's, the prospect of developing effective treatments for AD was very remote. However, during the last few years the prospects of discovering useful compounds have improved significantly. In a very short period it was discovered that the clinical symptoms of AD, such as cognitive loss, are associated with a specific biochemical deficit in the brain. This finding eventually led to the testing and approval of the first drug treatment for AD. Now many other second generation compounds are in various stages of development and testing; these are expected to provide safer and more effective drugs. Since 1978 remarkable progress has been made in understanding the molecular details of the hallmark neuropathological lesions associated with AD such as the protein chemistry of the amyloid in the senile plaque, the abnormal process of adding phosphate molecules to the tau protein in the tangles, and the mechanisms of losing contact points between nerve cells (synapses). These findings have led many biotech companies to begin formulating strategies to slow down or reverse the destructive course of these molecular lesions. Meanwhile, studies of the genetic basis of this disease have been incredibly productive in identifying three chromosomes (21, 14, and 19) associated with AD, and the prospect of discovering yet additional genetic loci on other chromosomes is very promising.

Preliminary results of pilot epidemiologic studies have indicated that treatments with some already available agents such as estrogen and anti-inflammatory compounds may also have a positive effect in delaying the symptoms of AD. These findings now are being tested for proof of concept. More recently, the development of a mouse model for one of the brain lesions associated with AD will allow scientists to test new drugs and explore ways to prevent the development of these lesions. Extrapolating the current rate of progress in understanding the neurobiology of this disease into the future, there is sufficient justification for optimism that expansion of ongoing efforts to discover risk factors, cause(s), and treatments will be successful in achieving the goal of delaying the onset of disabling symptoms and maintaining independent functioning. The 1996 President's Budget proposes to increase spending on Alzheimer's Disease research at NIH by $7.3 million, or a 2.3% increase.

NATIONAL CENTER FOR RESEARCH RESOURCES

Question. Dr. Vaitukaitis, the Fiscal Year 1995 Labor/HHS Appropriations Subcommittee Report referred to the need to support oral health research facilities construction. How are you and your colleagues at the National Center for Research Resources proceeding with that request?

Answer. Applications for the research facilities construction program for Fiscal Year 1995 were received this spring and will be reviewed in June by the Scientific and Technical Review Board on Biomedical and Behavioral Research Facilities. Following review by the National Advisory Research Resources Council, awards will be made. At this time, we are unable to anticipate whether any application for oral health research facilities will be funded.

PEER REVIEW PROCESS

Question. Dr. Varmus, the Clinical Research Study Group convened as part of your assessment of the NIH peer review system concluded that patient-oriented research proposals fare less well in study section review than laboratory-oriented research. As previously raised by the clinical cancer research community, poor outcomes occur not because the proposals are less meritorious, but rather of inadequacies in the review process.

Answer. The Clinical Research Study Group review was focused on clinical research applications reviewed by study sections in the Division of Research Grants (DRG). These applications constitute approximately 40% of all the NIH clinical research proposals.

The Clinical Research Study Group found that patient-oriented research applications reviewed by study sections with a clinical focus fared far better than those reviewed by other study sections who didn't review as many patient-oriented applications. This finding led DRG to plan a pilot experiment involving the clinical research study sections with the objective of improving the review of patient-oriented applications. The pilot study will begin in June 1995.

In addition, initial findings by the Clinical Research Study Group revealed that the success rate for patient-oriented applications improved significantly upon resubmission. While there are a number of explanations for such improvement, the results suggested that study section expertise is not the sole determinant of the outcomes of patient-oriented research applications.

Question. Dr. Varmus, how do you intend to improve grant review for patient-oriented research?

Answer. As you may know, NIH recently issued a Report of the Working Group on the Division of Research Grants. The report contained a number of recommendations that should improve peer review in general. In particular, it recommended that the study section membership be diversified by including members with varying kinds of backgrounds. This may encourage physicians and other medical professionals to participate as reviewers.

Another recommendation from the Working Group is the establishment of the Peer Review Oversight Group (PROG) that would be charged with coordinating, evaluating, and making policy recommendations for all peer review conducted at the NIH, both within DRG and in the Institutes/Centers. Finally, results from the DRG pilot experiment may inform us of ways to optimally use clinical research study sections.

Patient-oriented research is an important part of our portfolio and will be prominent as we move to review and strengthen all peer review at the NIH.

DISPARITY IN EXTRAMURAL GRANT FUNDING

Question. Dr. Varmus, in the January 22, 1993 issue of Science, you proposed that the NIH's budget should grow by 15 percent per year to enable the NIH to fund about 30 percent of approved extramural grants. Currently there exists a large dichotomy at NIH where a few Institutes hover at the 30 percent level, while others languish well below. Does NIH have a plan to bring those Institutes currently suffering from low success rates, such as NIAMS, into parity with the other Institutes?

Answer. Short of an increase in appropriations, NIH will have to consider a variety of strategies in order to raise the success rates of those Institutes/Centers (ICs) that have experienced low success rates in funding approved extramural grants. These range from reducing or eliminating Requests for Applications; reducing the number and/or size of large grants, such as program project grants and center grants; and re-examining the intramural programs of these ICs to identify any potential for reallocation of funds.

FOUNDATION FOR BIOMEDICAL RESEARCH

Question. Dr. Varmus, I note that the Centers for Disease Control has moved forward very aggressively to initiate the National Foundation for the Centers for Disease Control. What is the status of the National Foundation for Biomedical Research at NIH?

Answer. The National Foundation for Biomedical Research (NFBR) was established in Public Law 103-43, dated June 10, 1993. Appointment of Board members took place on July 9, 1993, with Mr. Benno Schmidt serving as Chair.

The Board met once on May 27, 1994, and a draft implementation plan was prepared subsequent to that meeting and was distributed to members of the Board.

The following issues remain before the NFBR can operate:

Funding: Despite an initial authorization of $200,000, NIH has not yet asked for, nor has Congress appropriated funds for this activity. Therefore, NIH has not used other funds to start the NFBR, based on advice from legal counsel. The Centers for Disease Control (CDC) used $500,000 in Federal funding and a comparable amount in grants to start its foundation.

Staffing: The Board agreed to a national search for an Executive Director. However, that person cannot be hired without available funding. Staff assistance from inside and outside the NIH on a voluntary basis has been explored and is feasible.

We are considering strategies on how to begin this process as the NFBR awaits incorporation, funding and staffing to move forward. The NIH remains enthusiastic about the role of the Foundation in the support of basic and clinical biomedical research.

Question. Dr. Varmus, if Congress were able to establish a supplemental funding stream beyond what is available through discretionary means, we would hope to have a willing partner in the Foundation to receive and distribute these funds to NIH in some fair manner. Is this feasible? If not, what changes would be necessary in the National Foundation for Biomedical Research's statutory authorization to achieve this objective?

Answer. The National Foundation for Biomedical Research (NFBR or "Foundation") is authorized to accept funds and distribute them to NIH in a fair manner. If Congress chooses to authorize funds specifically for use by the Foundation, no changes are needed to the NFBR authorizing legislation.

Under section 499(m) of the Public Health Service (PHS) Act, Congress authorized an aggregate of $200,000 for Fiscal Years 1994 and 1995 for the Foundation, and prohibited use of funds appropriated under any other provision of law to be expended to establish or operate the Foundation [42 U.S.C. S290b(-m)]. To date, these funds have not been appropriated; therefore, NIH currently has no funds to establish or operate the Foundation.

Further, the NFBR is authorized to solicit and accept gifts, grants, and other donations, establish accounts, and invest and expend funds in support of its activities [42 U.S.C S290b(c) (1)]. This section enables the Foundation to obtain and use funds other than appropriations for its activities.

WOMEN SCIENTISTS

Question. Some women scientists at NIH have complained that they have been the subject of discrimination at the NIH resulting in decreased morale which leads some women scientists to voluntarily terminate their employment with NIH. A review by the Equal Employment Opportunity Commission (EEOC) in May 1994 found that the NIH Office of Equal Opportunity was not a fair and impartial office where aggrieved persons could go to express their equal employment concerns due to lack of confidentiality and a fear of retaliation by management. The EEOC review also found that women voluntarily left their employment at a rate above their representation in the workforce. NIH had not attempted to determine why women in these groups had chosen to leave. Dr. Varmus, are you aware of this study and the concerns of some women scientists at NIH? Have you taken any steps to address their concerns?

Answer. Early in my tenure as Director of the NIH, I became aware of allegations of inequities in hiring, allegations of hostile work environments for women, and general employment practices that tended not to include women, minorities and people with disabilities. I immediately began to take steps to eliminate barriers to equal opportunities for all NIH employees. Many of my action items were completed before the May 1994 EEOC report was released. For example, in October 1993, the NIH Office of Equal Opportunity (OEO) entered into an interagency agreement with the Departmental Appeals Board, Department of Health and Human Services to institute a mediation process for resolving complaints. These procedures allow employee concerns to be addressed by third party neutrals, while we continue to work on improving the OEO's reputation and customer service. In addition, in September 1994, I hired a new senior executive with substantial EEO experience to run the OEO. She has been specifically tasked with making NIH a more fair and open office responsive to both employees and management.

In an effort to identify the underlying causes for the high rate of separation identified for women, the NIH began piloting a "separation questionnaire" in the September 1994. The voluntary questionnaire elicits information on the departing employee's work environment, and the reasons why the employee has chosen to leave the NIH. The OEO is in the process of analyzing data received for the first two quarters of FY 1995. Four hundred twenty-two employees have left the NIH during this time period for various reasons, including retirements and buy-outs. Only 90 employees (21 percent) voluntarily returned their separation questionnaire. Two hundred fifty-nine of the employees who left are women, while 53 of those who returned the questionnaire are women, including six in scientific occupations. At this point, the NIH has insufficient data to provide meaningful information on why women leave the NIH at a slightly greater rate than men. Anecdotal information includes both the theory of better opportunities elsewhere, and the theory of the unfriendly work environment. The NIH will continue to pilot the separation questionnaire and explore other options such as exit interviews to help better determine why women scientists leave.

The NIH also established a Woman Scientist Advisor (WSA) to the Scientific Director in each Institute. Each WSA is responsible for bringing women scientists' issues, including promotion and pay equity concerns, to the attention of senior management. The WSAs are a crucial link to assist the OEO and management in eliminating barriers to the retention of women.

In FY 1995, the NIH established a process to resolve claims concerning pay levels from scientists in the Intramural Research Programs. This process is open to women scientists where there are demonstrated disparities between the pay for men and women scientists who are similarly situated.

With respect to informal complaints of sexual harassment filed at the NIH, seven were filed during FY 1994. As of May 25, 1995, four were filed during FY 1995. Two of the four FY 1995 complaints are currently under review; one could not be resolved informally and the complainant has filed a formal complaint; and for the fourth complaint, the complainant chose not to pursue the matter.

DIAGNOSTIC RADIOLOGY

Question. Dr. Varmus, the field of diagnostic radiology has played a significant role in the medical advances made over the past several decades. Medical imaging procedures, in fact, now contribute to the final patient diagnosis in more than 75 percent of all hospital admissions. Given the potential this field holds to more accurately diagnosis disease through non-invasive procedures, would you provide the Committee with highlights of promising research now underway in this field?

Answer. Imaging technologies hold tremendous promise for translating progress in molecular biology and gene mapping into practical advances in medicine. It is now possible to define specific molecular receptors, as well as oxygen and sugar consumption, in living people carrying out complex tasks. Non-invasive imaging tools that have recently been developed and are constantly improving will open new doors leading to major advances in the understanding, diagnosis, and treatment of human diseases.

Specifically:

- Research in the area of full breast digital mammography has the greatest potential of increasing the ability to detect malignancy at a lower dose of ionizing radiation. The coupling of digital techniques with directed core biopsies will reduce the number of exploratory surgical procedures in women at risk of developing breast cancer. Clinical research utilizing magnetic resonance imaging (MRI) of the breast should complement digital mammography and may provide a method for evaluating women with mammographically dense breast tissue.

- The use of magnetic resonance imaging in the evaluation of coronary artery disease is being developed in both the extramural and intramural NIH programs. This rapidly developing, non-invasive, cost-effective technology is able to detect coronary artery disease accurately. Recent progress has allowed investigators to evaluate the state of the major coronary arteries, the effective blood flow to the heart wall, and the actual regional motion of the heart wall in a single examination. This technique shows promise, both to improve the diagnosis of coronary artery disease as well as to reduce the cost of a cardiac workup by providing most of the necessary information in a single study, thereby replacing many invasive diagnostic catheterization procedures.

- Clinicians will be able to use MRI, the most sensitive imaging technique available, to direct biopsies and monitor treatments. For example, because of its unique sensitivity to changes in the macroscopic water environment in tissues, interventional MRI can monitor treatment of tumors with heat and cold. Coupled with advanced image processing techniques, neurosurgeons have the capabilities of performing MRI-directed cerebral surgery with real-time updates of the effects of treatment.

- Standard computed tomography (CT) data can now be reformatted into a three-dimensional image. The resulting image will be more interpretable and informative than traditional studies. Procedures are now under development whereby three-dimensional pictures of the bronchus, colon, and stomach can be used for "virtual" bronchoscopy, colonoscopy, and endoscopy from noninvasive CT data. Similarly, noninvasive imaging techniques are being developed and evaluated to assess vascular anatomy and blood flow by CT, MRI and ultrasound. For example, the three dimensional reconstruction acquired by spiral CT allows the display of vascular anatomy comparable to more invasive angiography. These advances will allow physicians to acquire accurate diagnostic information while reducing painful, time-consuming, and expensive procedures.

- Modern Positron Emission Tomography (PET) imaging methods recently have been adapted to follow the altered metabolism of breast cancers. Using a radiolabeled analog of glucose (a form of sugar) as a tracer, increased sugar use by aggressive breast cancers can be detected; this technique can be also be used to detect metastatic disease outside of the breast. By imaging the metabolic or biochemical changes of cancers in vivo, the effects of various cancer treatments can be assessed much earlier than has been possible previously, thereby permitting more effective treatment monitoring.

- PET technology is being used to correlate regional blood in the brain with thinking and other functions. These studies are mapping the brain regions involved in normal cerebral functions and serve as a baseline for studies of abnormal brain function in a variety of diseases including schizophrenia, Alzheimer's Disease, stroke, epilepsy, Parkinson's Disease, and brain cancer.

- Research using radiolabeled antibodies for diagnostic and therapeutic applications is showing promise in the treatment of certain cancers. Administration of Yttrium-90 radiolabeled anti-Tac monoclonal antibody has had success in treating patients with adult T-cell lymphoma and leukemia. In addition, imaging with Indium-111 octreotide (which binds to the somatostatin receptor) is more sensitive than either CT or MRI for finding metastatic gastrinomas.

Question. Dr. Varmus, please provide the Committee with a breakdown by Institute of funding for diagnostic radiology for Fiscal Years 1990 through 1996.

Answer. Funding for diagnostic radiology by ICD follows:

National Institutes of Health
Diagnostic Radiology

(Dollars in Thousands)

	1990 Actual	1991 Actual	1992 Actual	1993 Actual	1994 Actual	1995 Estimate	1996 Estimate
NCI	$42,488	$45,848	$48,479	$54,491	$51,146	$51,244	$51,394
NHLBI	30,778	31,621	28,693	28,435	32,894	33,700	34,750
NIDR	1,869	1,929	2,192	5,073	5,193	5,281	5,437
NIDDK	9,500	9,900	10,300	10,500	10,900	11,200	11,600
NINDS	17,350	15,827	17,456	21,819	20,806	21,350	22,226
NICHD	5,080	5,284	2,704	2,652	3,266	3,400	3,500
NEI	3,832	3,854	3,754	3,740	5,977	6,195	6,380
NIEHS	2,193	2,326	2,494	2,657	2,451	2,451	2,543
NIA	7,593	8,507	8,836	9,739	11,514	11,860	12,200
NIAMS	2,994	2,704	3,576	4,065	3,053	3,150	3,240
NIMH	20,032	22,241	22,562	24,396	21,966	22,790	23,496
NCRR	7,879	8,189	6,300	6,450	7,779	7,839	9,397
NINR	----	----	----	----	56	60	70
NLM	1,969	2,381	3,154	3,249	5,093	3,515	2,710
OD	1,950	1,966	2,027	1,908	1,997	1,910	2,015
TOTAL	$155,507	$162,577	$162,527	$179,174	$184,091	$185,945	$190,958

Question. Dr. Varmus, three years ago, this Committee called for the establishment of an intramural program for radiology research. Would you give us a status report on the program, and describe what plans you have for the future?

Answer. The Laboratory of Diagnostic Radiology Research (LDRR) has been established as a training program and laboratory for promoting basic research in medical imaging. The laboratory provides qualified individuals with the opportunity to develop basic research skills and techniques which will ultimately result in talented scientists returning to the academic community. LDRR's laboratory agenda will focus primarily on areas of functional/metabolic imaging particularly using magnetic resonance imaging and spectroscopy, molecular imaging, and image processing. Essential to all the laboratory agendas will be the continued technical development of radiological and nuclear medicine techniques. This laboratory effort is providing teaching techniques and skills for the fellows not readily available at other institutions.

Over the past 3 years, LDRR staff and fellows, in collaboration with other ICD scientists, have published over 40 articles and the lab has submitted five patent applications. In 1994, a new state-of--the-art laboratory was constructed in the Clinical Center for LDRR. Also in 1994, the LDRR program underwent its first scientific review by an ad hoc external advisory committee. The results of the scientific review were excellent, and the committee acknowledged that the program was unique and comparable to some of the best imaging research groups in the country.

LDRR was designed by NIH to have 12 fellows in training at any one time. Because of FTE issues related to the location of LDRR in the Office of the NIH Director, about half this number are currently supported by a variety of personnel mechanisms. The future success of LDRR as a training program will depend on NIH finding a solution to this FTE problem. An ongoing review of all preclinical and clinical imaging facilities at the NIH utilizing outside expert consultants and continuing discussions with the Academy of Academic Radiology will help address this problem.

Question. Dr. Varmus, what mechanisms, if any, are in place to coordinate diagnostic radiology programs now spread throughout the various Institutes?

Answer. In early 1995, the Deputy Director for Intramural Research convened a meeting with seven prominent extramural imaging scientists and a working group of intramural imaging experts, to evaluate and comment on the organization of the intramural Clinical Center diagnostic imaging departments, the various imaging research groups located within NIH Institutes, Centers and Divisions, as well as the Laboratory of Diagnostic Radiology Research. The preliminary results of this review indicated that there was excellent collaboration among the various imaging research groups on campus. However, improved coordination of clinical support and training activities were recommended. To this end, the Deputy Director for Intramural Research and the Associate Director for Clinical Research have organized an Imaging Task Force to oversee joint clinical, research, and training activities. Recruitment of a new chair for the Department of Diagnostic Radiology will also provide an opportunity to foster collaborations among the various imaging departments.

TREATMENT AND PREVENTION OF CARDIOVASCULAR DISEASES

Question. Dr. Lenfant, despite progress, heart attack, stroke and other cardiovascular diseases remain America's No. 1 killer of men and women in the United States and a leading cause of disability. What progress can you report in research advances for the treatment and prevention of cardiovascular diseases?

Answer. Major advances have recently been recorded in our ability to prevent heart attacks, especially in individuals with a history of coronary heart disease (CHD). For example, new, potent cholesterol-lowering drugs known as statins were shown to reduce cholesterol levels substantially and to lower the number of heart attacks, both fatal and nonfatal, to 30-40 percent. A 30 percent reduction in overall mortality was also found. This result is especially important, in that it allays concerns about the safety of cholesterol lowering. The treatment also markedly reduced the need for surgical procedures, such as bypass surgery, and achieved a lower incidence of stroke as well.

The National Cholesterol Education Program (NCEP) recommends that the cholesterol status of all patients with prevalent CHD be evaluated, and that most of them be treated aggressively with diet and, if necessary drugs, to lower their cholesterol levels. Given that 50 percent of all heart attacks occur in patients with CHD, this recommendation could make a significant contribution to decreasing the large public health burden and enormous health care costs imposed by CHD.

These advances come at a time when the nation is recording significant success in preventing death from CHD. As a result of changing lifestyles leading to alterations in their diet, Americans have reduced their total and saturated fat intakes, and decreased their average blood cholesterol levels, and heart attack mortality rates.

Other advances in the treatment and prevention of cardiovascular diseases continue across a broad front. For example, thrombolytic therapy modifies the course of acute heart attacks. It preserves heart muscle and reduces death rates. Such timely intervention, when coupled with earlier rehabilitation efforts, leads to shorter hospital stays, improves functional outcomes, and decreases health care costs for patients recovering from a heart attack or bypass surgery.

Numerous studies have shown that blood pressure control in hypertensive patients results in an overall reduction in cardiovascular disease and death. The benefits are not confined to the middle-aged; even modest reductions in blood pressure in elderly hypertensives decreases death rates. The prevalence of high blood pressure decreased from approximately 29 to 24 percent between 1988 and 1991. This decline was especially pronounced in blacks. Control of hypertension through drug therapy and nonpharmacological interventions, such as exercise and diet appears to be improving.

Progress continues to be made. For example, NHLBI-supported research found that patients with chronic heart failure live longer and avoid repeated hospitalizations when treated with the ACE inhibitor, enalapril. The Institute will continue to seek an enhanced understanding of the cause of heart failure at the cellular and molecular levels so that improved treatments and preventive approaches can be developed.

CARDIOVASCULAR DISEASES

Question. Dr. Lenfant, how much does cardiovascular diseases cost this nation and how much is being spent on NHLBI-supported cardiovascular research?

Answer. The cost is substantial. In 1992, the estimated economic cost of cardiovascular diseases was $204 billion. This total includes $126 billion in direct costs such as health care expenditures for hospital and nursing home care, drugs, and physician and other professional services. Also included is $78 billion in indirect costs for lost productivity due to morbidity and for loss of future earnings because of premature death.

In FY 1994, the total non-AIDS budget for the NHLBI was $1.210 billion, of which $710.2 million was provided for research to prevent, diagnose, treat, and cure cardiovascular diseases. The FY 1995 non-AIDS estimate for the Institute is $1.241 billion with approximately $732.9 million estimated for cardiovascular research.

Question. How much will the President's Budget allow you to support in FY 1996?

Answer. The President's request for NHLBI of $1.279 billion includes $753.8 million for extramural and intramural research related to cardiovascular diseases.

Question. In your professional judgement, how much is needed to support cardiovascular research?

Answer. The professional judgement estimate for the NHLBI is $1.447 billion for non-AIDS research which includes $854.0 million for cardiovascular research.

PROSTATITIS

Question. Dr. Gorden, I am advised that 50 percent of men will experience symptoms of prostatitis in their lifetime. Yet, I am advised that no research is being done by the NIH or Center for Disease Control (CDC). Why isn't NIH investigating prostatitis?

Answer. Studies under support by NIDDK in FY 1994 will contribute to the understanding of the causes of prostatitis, and may suggest treatments to alleviate or cure this highly prevalent condition, the source of so much human discomfort, morbidity, expense, and time lost from productive activities.

Our urology program began as a small component of the NIDDK and has grown almost 300 percent over the last five or six years, fueled largely by initiatives that are related to prostate disease. These initiatives have relavance to both benign prostate disease and to prostate cancer, an area in which we collaborate with NCI. NIDDK research funding for prostate disease has grown from $9.4 million in FY 1994 to a projected $13.8 million for FY 1995.

In Fiscal Year 1994 the NIDDK awarded the University of Washington $242,373 to study idiopathic lower genitourinary tract syndromes in men to determine the role of previously suspected urogenital pathogens and to study the relationship among genitourinary infection, inflammation in prostate secretions, and prostate histopathology. The NIDDK also currently supports a full-scale clinical trial to test whether medical therapy can delay or prevent the progression of benign prostatic hyperplasia. This trial will also evaluate the relationships between treatment, symptoms, and physiologic changes in the prostrate.

Most of NIDDK-funded research is investigator-initiated. Individual scientists choose the subjects they wish to investigate and submit grant applications requesting funds for a particular project. Therefore, funding in a particular area is largely reflective of the quantity and quality of research proposals submitted by scientists in the community, as judged by the NIH peer review system. To increase awareness of prostate research, the NIDDK sponsored a conference on prostate growth in 1992 and plans to sponsor a similar one in 1996. We also plan to sponsor a workshop in 1996 which will focus on clinical and basic research knowledge in prostatitis. One goal of the workshop is to develop and generate research proposals in this area. We will make every effort to fund additional research related to prostatitis in FY 1996, and in future years, with the resources made available to us.

LOU GHERIG'S DISEASE/ALS

Question. Dr. Hall, last year you told Congressional Appropriations Committees that 15 ALS patients had been admitted for study during 1994. How many were admitted during last year, for what purpose(s), and what clinical studies of ALS patients do you expect will take place during the coming year?

Answer. Operating on evidence that ALS may be a disease of the immune system, NINDS intramural investigators were investigating, with 15 patients, the effectiveness of high-dose intravenous immunoglobulin in retarding or halting the course of the disease. Unfortunately, the results of this study were negative. Based on the hypothesis that dysfunctions in ALS prevent the normal removal of oxygen radicals from the nerve cells of patients, this intramural team is now planning a study involving the administration of a new drug (Ro 40-7592). This drug, which assists in the removal of oxygen radicals, is already being investigated for use with patients who have Parkinson's Disease in a Phase I clinical trail designed to test the drug's safety. If this current study proves the drug to be safe, trials with ALS patients will be proposed. Another area being investigated by this intramural team is the possibility that viruses are involved in the etiology of ALS. Antibodies to the retroviral proteins of the virus HLTV 2 have been found in four percent of ALS patients. Additionally enteroviruses--the family of viruses that includes the polio virus--have been detected in the spinal fluid of some patients with ALS. Yet another NINDS intramural team is studying the motor control of patients with ALS, using stimulation to discover the neural pathways involved in the disease.

Question. Dr. Hall, you also said that in addition to the clinical beds for ALS patients, 3,750 square feet of space was being used for ALS basic and clinical research. Could you describe how that space is being utilized?

Answer. In addition to clinical beds, space is utilized for several investigational studies, both basic and clinical. Laboratories conducting basic studies are examining the factors affecting the motor neurons involved in ALS, investigating animal model of the disease, and conducting molecular and cellular studies of the basic mechanisms of the disease. Space is also utilized to receive and examine ALS patients and to obtain samples of blood and spinal fluid for further laboratory tests. Additionally, in these areas, patients are screened for the purpose of identification and classification for possible participation in future clinical trials.

Question: How much of the federal funds provided to NINDS are used exclusively, that is dedicated exclusively, for direct research on ALS? And how does that level of dedicated funds compare with previous years?

Answer. For Fiscal Year 1994, the NINDS total funding support for ALS research was $10,104,000. Of this amount, $8,137,000 supported activities for direct research on ALS. By comparison, total NINDS funding levels for ALS research in Fiscal Years 1993 and 1992 were $8,251,000 and $4,601,000 respectively. Within those amounts the direct only funding levels for Fiscal Years 1993 and 1992 were $6,916,000 and $4,088,000 respectively.

Question. Would you please tell this Committee how you divide the funds between intramural and extramural ALS-related activities? What is your rationale for such funding decisions? Who has input into how funds are allocated for intramural ALS-related activities?

Answer. Several factors influence the determination of resource allocation between the Intramural Program and Extramural Program in NINDS. Shift in the ratio of resources--currently 1:7--are modulated in the near term by the commitment base in each program as well as by specific constraints and directives resulting from Administration policy or Congressional action. All these factors, plus scientific needs and opportunities, play a role in the process by which the Institute Director, with the aid of staff and external advisors, allocates resources. Each year the Office of the Director, NINDS, conducts a review of proposed initiatives in the Division of Intramural Research and each of the extramural program divisions.

Participants include senior staff of each division and the Office of the Director. Each division's proposals are reviewed and critiqued by the entire group. The goal of the review is to assess each program's accomplishments and plans in the light of scientific opportunities and to identify priorities for allocation of resources. Proposed initiatives originate from many sources, including the following:

- Senior staff assessment of areas of science that warrant additional funding, or that would benefit from stimulation, such as a conference or workshop.

- Recommendations of the Institute's Board of Scientific Counselors and National Advisory Council.

- Priorities identified in the Administration's budget or other policy initiatives.

- Directives and guidance in Congressional Language such as Appropriations Committee reports.

This annual process provides the Institute Director with the information necessary to determine which needs and opportunities should guide the allocation of resources between the extramural and intramural programs and within each program. Such considerations must then be weighed against other factors, such as FTE ceilings and the grant commitment base, that set the framework for allocations of discretionary funds. Recent appropriations history suggests a slight downward trend in intramural research attributable to the overall downsizing of the Federal government, which includes planned reductions in FTEs and in financial resources (administrative costs). Research conducted within the Intramural Division is largely determined--as it is extramurally--by the individual scientist-investigator following the promising leads of scientific discovery.

Question. As I'm sure you are aware, there have recently been some promising developments reported in the literature toward unlocking the mysteries of ALS. What are NIH and NINDS planning to do in response to these developments? More specifically, what about phase-one clinical (therapeutic) trials on such promising new therapies as GDNF?

Answer. Some investigators suspect that lack of a nerve factor, such as GDNF, or related chemical in the body produces the motor neuron death characteristic of ALS. If ALS is caused by the loss of a growth factor, and if that protein can be found, then physicians may eventually be able to treat the disease by giving patients a regular supply of the missing protein, in much the same way they give insulin to diabetics. The results of privately-sponsored GDNF animal studies are preliminary. Unfortunately, all prior growth factor studies related to ALS have been negative so far. French studies of the drug, riluzole, which assists in the removal of toxic glutamate from around neurons, showed that it prolonged the survival of patients by three months. However, there was no change to the quality of life the patients during this period, and it is not currently believed to have the potential of significantly positive results. Recent reports provide converging new insights into the mechanisms of the disease, particularly suggesting that one or more genetic defects can result in fatal injury to the motor neuron.

The extramural program in ALS is very active, as evidenced by recent advances such as development of an ALS mouse model and study of the SOD gene linked to a familial form of ALS. A major research advance was the mapping to chromosome 21 of a gene that causes some cases of familial ALS. In a study using sophisticated statistical analysis of 23 families with familial ALS, the investigators showed that a gene responsible for the disease lies on chromosome 21 in a large group of the families. This ALS type is specifically linked to a defect in a gene which encodes superoxide dismutase, an enzyme necessary for removal of the toxic superoxide ion, a free radical toxic to neurons. Elucidations of this putative disease mechanism should shed important light on other neurodegenerative processes as well. Another familial ALS gene appears to be located on a different undetermined chromosome, and a juvenile ALS gene is localized to chromosome 2. In a recessive form of spastic paraplegia, a disease primarily of upper motor neurons--in classical ALS both upper and lower motor neuron are involved--the gene maps to chromosome 8. This suggests that several familial forms of ALS, and perhaps even sporadic instance, may result from more than one genetic defect. Building upon the recent discovery that a significant number of familial amyotrophic lateral sclerosis (ALS) patients have mutations in an enzyme (cu, Zn superoxide dismutase of SOD), NINDS grantees have produced transgenic mice that express wild types of mutant forms of SOD. These mice develop weakness and neuronal degeneration similar to that seen in ALS patients. Through research to be supported in FY 1996, this important new model should yield insight into the pathogenesis of this disease and provide an animal system for testing therapies for the disease.

Question. As I'm sure you know, ALS research is a very high priority to this Committee which is reflected in last year's report language. Please tell us what NINDS is doing to comply with Congress' will as expressed in this language?

Answer. In this FY 1995 report language the Senate committee encouraged the Institute to build upon promising developments by expanding support for extramural amyotrophic lateral sclerosis (ALS) research as well as to consider establishing an intramural ALS research program. The extramural program in ALS is very active and productive, as evidenced by recent advances such as the development of an ALS mouse model and study of the SOD gene linked to a familial form of ALS. Decisions regarding the development of any new intramural programs await the appointment of a new scientific director and an evaluation of the overall intramural research program. Funding for NINDS research on ALS has increased from $10.1 million in FY 1994 to an estimated $10.3 million for the current year. The FY 1996 President's Budget includes $10.8 million for this research.

Question. Please describe what new research grants were awarded during FY 1994 and FY 1995 for ALS research? What are your expectations for FY 1996?

Answer. The NINDS is providing support for several new research grants in FY 1994 and Fy 1995, which study basic research concerning ALS. Included is research on microtubules and myelination, cyclic AMP and neuronal programmed cell death, protective trophic factors in motor neuron degeneration, and molecular physiology of glutamate transport in the brain. Under the President's Budget in FY 1996, we plan to continue supporting these and other ongoing ALS projects.

PATENTING OF GENES

Question. The Patent and Trademark Office has routinely awarded patents on genetically engineered life forms since 1980 when the Supreme Court ruled that Exxon could patent a genetically engineered microorganism used to dissipate oil spills. Biotechnology companies claim that they need these patent rights to secure funds to develop treatments for many diseases. Virtually all of the 29 biotech drugs that are on the market have been developed as a result of patents on genes, like the gene that produces human growth hormone or the genes that stimulate production of red blood cells. Dr. Varmus was quoted by the Wall Street Journal as saying that patenting is an important incentive for industry.

A coalition of religious leaders has announced plans to hold a press conference on May 18 to request that the Federal Government stop issuing patents for genes. The coalition members say they are not opposed to genetic engineering or even patents of many of the techniques or processes that scientists use in biotechnology, but they say they draw the line at the idea of patenting basic units of life which, they believe, is God-given and is demeaned by being reduced to a marketable commodity. Dr. Varmus, I'm sure you are familiar with a number of recent newspaper articles which have reported that a coalition of religious leaders have started a campaign against the patenting of human genes. What is the position of the NIH on the issue of gene patenting?

Answer. I am aware of the concerns expressed by a group of religious leaders regarding the patenting of genes and genetically altered organisms on moral grounds. I believe that these concerns could be clarified by considering the underlying rationale for the patent system. Patenting was designed in order to benefit the public, by providing an incentive for a company to invest research and development capital in order to develop a useful product, without losing the investment as soon as the product is marketed. To look at patenting in moral rather than legal terms often results in confusion. Patents do not represent ownership of a gene or organism, both of which have the same legal and policy criteria. Patents merely protect the right to use an invention for a limited period of time. At the same time patents require that information about the invention be made public. Furthermore, patents on genes are actually protecting a form of the gene that has never existed in nature, but has been spliced and cloned using recombinant DNA in the laboratory.

NIH is concerned, however, about the inappropriate use of patents to cover short sequences of DNA of unknown function, as this could potentially be inhibiting to future research. NIH has recently taken a strong stand against the patenting of such DNA sequences unless there is clear evidence of novelty, utility, and nonobviousness. When these criteria apply, however, the patenting of genes and genetically altered organisms or cells can be critical to the development of therapies for many diseases as well as for other economically important processes. Without this system in place, many of the current crop of "wonder drugs" based on biotechnology would simply not have been developed. The real ethical issue is can we afford to deny people with serious diseases the possibility of treatment when we have the knowledge to do it?

Question. Do you make a distinction between patenting genetically altered plants or animals and the patenting of specific genes themselves?

Answer. No, we do not make a distinction. The same legal and policy criteria is applied to both.

BUDGET OUTYEAR ESTIMATES FOR NIH

On February 22, 1995, Senators Hatfield, Harkin and I wrote you regarding your concerns about cuts proposed in NIH funding in fiscal years 1997-2000 by the President's FY '96 budget. Dr. Varmus sent his response on May 3, 1995. Secretary Shalala also addressed this issue when she testified before this subcommittee on March 9, 1995.

Both the Secretary and Dr. Varmus have stated that the projected outyear reductions contained in the President's budget were shown in the budget document to apply across-the-broad to all HHS programs but that Secretary Shalala is prepared to try to protect NIH from those cuts. However, in his letter Dr. Varmus states that NIH must begin to consider its options given the impetus to reduce the federal deficit and that he plans to convene a group to address this issue in the near future.

Question. Dr. Varmus, I wrote to you about my concern about the President's Budget estimates for NIH which show funding for NIH declining in FY 1997 through FY 2000. Both you and Secretary Shalala have since told me that you will try to protect NIH funding, if possible. But if funding declines in the outyears, what is the justification for ramping up NIH funding in FY 1996 only to ramp down in future years?

Answer. The FY 1996 President's Budget outyear projections shown for the NIH reflect calculations which were applied formulaically to most DHHS programs to reach overall DHHS targets for the outyears. As you have noted, Secretary Shalala has indicated on the public record that the President's Budget overall outyear estimates for DHHS, which show funding declining in FY 1997 through FY 2000, may not be spread evenly across the DHHS agencies and that she is prepared to try to protect the NIH. I believe that the President's Budget request for FY 1996 would provide a level of support which would enable NIH to continue to produce important advances, to develop promising discoveries, and to maintain progress in uncovering new knowledge to improve health, prevent illness, and cure disease for all Americans. It is fortunate for NIH that appropriations are made one year at a time and that we will have an opportunity to defend budgets for future years based on the important work that is conducted under NIH auspices each year.

Question. Dr. Varmus, in your letter to me dated May 3 regarding outyear funding for NIH, you wrote that you soon would be convening a group of individuals from within NIH as well as outside of NIH to discuss how to allocate NIH funds given a level stream of funding. Have you convened such a group?

Answer. Although I have not convened this group yet, I am in the process of identifying individuals whom I will invite to serve on this group to discuss the effects of a steady state of support for biomedical funding and to provide advice on how to allocate NIH funds across the various mechanisms of support available to us. I expect that the group will meet in late September. We will update the Committee on the group's discussions and conclusions.

Question. While nutrition related research has recently been highlighted by the National Institutes and our Committee as an important area, funding for nutrition-related research over the period 1988 to 1994 seems to have been at rates substantially less than the funding for NIH research generally. Could you supply us with estimated expenditures on nutrition-related research from FY 1988 through 1995?

Answer. The NIH expenditures for nutrition and nutrition-related research for the fiscal years from 1988 to 1995 are as follows:

Fiscal Year	NIH Expenditure
1988	$276,195,000
1989	286,975,000
1990	292,359,000
1991	310,810,000
1992	343,251,000
1993	373,251,000
1994	400,701,000
1995 (est.)	

Question. Do you intend to continue the trans-NIH initiative in nutrition research and can its funding be at or above the NIH growth rate?

Answer. In FY 1995 a number of NIH institutes will be funding new grants as part of an NIH-wide bionutrition initiative that focusses on nutrient modulation of cell integrity and repair mechanisms. We had a very successful response to the RFA for this initiative, which was developed through NIDDK leadership; and I believe that at least 9 NIH institutes will be funding grants as a result. In addition to the momentum this already has given the field at a critical time, many of the applicants who came close to being funded under the RFA are in the process of revising their applications. If NIH funding levels are sustained in FY 1996, these investigators will have a good chance of being funded through investigator-initiated grants.

Question. The Committee urged NIH to strike a balance between basic and clinical research in nutrition. The major bionutrition initiative in FY 1994 was focused upon basic science. Are there any plans to establish a clinical bionutrition initiative in FY 95 or FY 96?

Answer. The Bionutrition Initiative was intentionally crafted to be very broad in scope so that both clinical and basic research would be included. In fact, of the 149 applications we received in response to our RFA, some 35 or so included human subjects research. Final funding decisions have not yet been made, but at least 4 and perhaps 6 of these clinically-oriented grants will be funded. In other trans-NIH nutrition activities, the NIDDK will be joined this year by the NIA, NICHD, NIAID, and NIDCD in issuing a program announcement on the Pathophyisiology of Anorexia in Disease and Aging. This is an area with an obvious clinical focus. At this time, a more general trans-NIH clinical bionutrition initiative is unlikely, because most clinical questions, by their nature, focus on particular diseases or conditions, thus limiting their scope to a few of the NIH Institutes.

Question. One of the most important developments in the clinical area in nutrition has been the development of improved technology for supplying nutrition to hospitalized patients using parenteral or enteral nutrition. These and related nutrition support services are very significant in critical care medicine and in the treatment of very premature children and the hospitalized aged. What plans does NIH have for research in these areas?

Answer. This is an important area of research interest, especially as it relates to nutritional support with respect to chemotherapy, surgery, and trauma. Several institutes support research on investigator-initiated grants that address parenteral and enteral nutrition. We also facilitate research on these topics by requiring that the Clinical Nutrition Research Units maintain nutrition support services that can be utilized by researchers. Our plans are to continue to support investigator-initiated research in this field.

Question. The National Institute of Diabetes and Digestive and Kidney Diseases supports clinical nutrition research units (CNRUs) and obesity and nutrition centers. The National Cancer Institute did support CNRUs but has reduced that support recently. No other Institutes have such research programs despite the 1993 NIH amendments calling for their creation. What are the plans at NIH for the establishment of further CNRUs or nutrition research centers?

Answer. I believe that the CNRUs and Obesity/Nutrition Research Centers serve a valuable function, especially through their support for pilot and feasibility studies. They also create a visible focus for nutrition research and training that can attract outside investigators. The NIDDK is making every effort to sustain its support of the existing centers, but new centers are unlikely at this time unless specific funds are provided for that purpose. With information provided by the National Cancer Institute, it is my understanding that they would be interested in further supporting CNRUs based on applications judged most scientifically meritorious by peer review and supportable within available funds.

Question. The existing CNRUs and obesity and nutrition research centers are well established and appropriate places for the study of important clinical issues in nutrition, such as those involved with the Women's Health Initiative. Are there plans to utilize CNRUs or centers for some of the clinical research to be done as part of the Women's Health Initiative?

Answer. By their nature, the Clinical Nutrition Research Units (CNRUs) and Obesity/Nutrition Research Centers (ONRCs) are encouraged to make their core laboratories generally available to as many investigators as possible. In some cases CNRUs exist at institutions where the Women's Health Initiative Centers also are located. Undoubtedly their expertise will be useful in these cases. An opportunity also exists to utilize the individuals enrolled in the Women's Health Initiative in additional studies, thus reducing the cost of those studies. This concept was discussed at the most recent annual meeting of CNRU and ONRC directors.

Question. What plans do you have, including research activity, for the new Office of Dietary Supplements?

Answer. The Office of Dietary Supplements will be in the Office of the Director and recruitment for the Director of that office is being conducted through national advertisements and solicitations. Selection should be completed in July. Two other personnel will be added thereafter.

Dr. William Harlan, Associate Director for Disease Prevention is assisting in developing the office and has had several meetings with industry representatives and professional organizations interested in dietary supplements. Dr. Harlan has initiated development of a database on currently supported NIH research and has discussed with industry representatives adding non-NIH research to this database. A series of national workshops are being planned to bring together the public and private communities with an interest in dietary supplements to discuss research needs, research approaches, and research progress. Tentative topics include phytochemicals and the role of dietary supplements in immunologic function. These workshops and the databases should provide an assessment of what is being done currently and what are promising research directions. This should help to form a research agenda and develop collaborative research projects. No research activity specific to the office is currently planned as no funds are available to support this research.

Question. Much of the research, both basic and clinical, in nutrition has been done through collaborative requests for applications (RFAs) by two or more Institutes. RFAs are important methods of focusing upon specific needs in research and of implementing collaboration between Institutes. What is the NIH position regarding the use of RFAs?

Answer. As you have noted, RFAs can be a very useful mechanism for stimulating research, especially when there is a paucity of research in a given area, or when a clearly defined coordinated objective, such as a major multicenter clinical trial, is undertaken. It is my experience that program announcements also can be highly successful in encouraging increased activity for areas where a research base already has begun to develop. Both of these tools will continue to be used by the NIH. However, the core of the NIH funding system is the investigator-initiated research grant. As we move to an era of tighter funding, this will remain our highest priority.

Question. The FY 1995 Senate Report urged that NCRR expand support for alternative research resources, including those that provide human tissues and organs to researchers. What progress has been made in this area?

Answer. A major effort of the NCRR is to expand the variety and utility of nonmammalian model systems that help in understanding human physiology and diseases. In FY 1995, the NCRR funded a large variety of research projects and resources in this area, including facilities that supply valuable biomaterials such as cloned genes, DNA probes and human chromosome libraries; resources that provide lower organisms, such as such as microorganisms, roundworms, fruit flies, yeast, cephalopods, and nudibranchs; and a center that coordinates the supply of human tissues and organs for biomedical research.

QUESTIONS SUBMITTED BY SENATOR MARK HATFIELD

ALZHEIMER'S DISEASE

Question. In the past, the Committee has strongly encouraged expanded research into Alzheimer's Disease. In fact, I have personally taken the position that Alzheimer's Disease research ought to be on a par with cancer, heart, and AIDS research. What is the current funding status, and what do you propose for FY 1996?

Answer. In FY 1995, the NIA estimates that $216,360,000, approximately half of our budget, will be dedicated to Alzheimer's disease research. The FY 1996 NIA budget request contains $220,700,000 for Alzheimer's disease research, with other Institutes contributing $91,161,000 for a combined NIH total of $311,861,000.

Question. Dr. Hodes, two years ago the Committee asked for a long range plan for attacking Alzheimer's Disease. The objectives of the plan were to find ways to slow the rate of deterioration from Alzheimer's Disease by five years. I understand that a recent report to the White House Conference on Aging found that postponing Alzheimer's Disease by five years is enough to cut the number of cases by half and save about $50 billion a year. Two years have passed and we have yet to receive the plan. Can you give us some idea of when the plan will be ready?

Answer. It is anticipated that the comprehensive report will be completed by NIA and ready for review by NIH and the Department within the next month.

Question. What's been the reason for the delay?

Answer. After receiving the Congressional directive, the NIA initiated a process to develop a thorough plan for Alzheimer's disease research. In collaboration with the Fisher Medical Foundation, the NIA organized a series of three Alzheimer's Disease Research Planning Meetings in 1994 to engage the active participation of the scientific community, other NIH institutes and Federal agencies and private sector organizations in addressing the range of scientific problems posed by Alzheimer's disease (AD). The meetings were organized to identify the critical targets for intervention and the most effective strategies for altering the degenerative course of the disease, as well as the most important barriers to progress on discovering treatments. Selected recommendations produced by the meetings are being published in appropriate scientific journals, while the comprehensive report to Congress is being prepared.

Held in May 1994, the primary goal of the first workshop was the development of approaches directed toward accelerating the discovery of treatments. The collection of position papers has been published in the journal Neurobiology of Aging, Vol. 15, Supplement 2, 1994. A compendium of the papers from the second workshop, held in August 1994, which focused on "Behavioral Approaches to the Treatment of Alzheimer's Disease," is to appear in International Psychogeriatrics later this year. The third workshop, held in December 1994, addressed the methodological and regulatory issues concerning clinical trials for testing the efficacy of preventive strategies.

These workshops, ongoing consultation and review by non-federal scientists and the advice of DHHS advisory panels concerning the NIA Alzheimer's disease program, are being used to prepare the comprehensive report in response to the Congressional directive. The report will outline future directions for research and strategies to reduce the duration of illness, reduce the number of individuals affected and to reduce the costs of care through delayed onset or, ultimately, prevention of AD.

Question. Along the same lines, Dr. Hodes, we have always considered the network of Alzheimer's centers around the country an important resource for new discoveries. I understand that the Centers have been cut by 8 percent this year. Given their high priority role in research, and the fact that the rest of the Aging Institute's budget increases slightly, why would the Centers be cut?

Answer. At a time when resources are limited, efforts continue to provide balance within the NIA's research portfolio and to maintain an optimal funding level for NIA's investigator-initiated research project grants. The FY 1995 budget for the NIA increased approximately three percent over FY 1994, with the bulk of this increase allocated to research project grants. As proposed by the FY 1995 President's Budget presented last year, the Alzheimer's disease centers, along with other continuing centers, are being funded at

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essentially the FY 1994 level. The eight percent cut you refer to reflects a reduction from an FY 1995 level for each of these centers that had been projected several years ago when more favorable budget conditions had been forecasted.

PARKINSON'S DISEASE

Question. Last year the Senate report directed the NIH to convene a consensus conference to develop a comprehensive plan for a coordinated research agenda among the National Institute for Neurological Disorders and Stroke and the National Institute on Aging and other appropriate NIH Institutes. What is the status of the consensus conference?

Answer. Detailed plans for a conference on Parkinson's Disease research, with international contributions, are being finalized, and a contract task order has been issued for a conference date in August 1995.

Question. What is your view of the potential for breakthroughs in the treatment of Parkinson's?

Answer. Investigators report that there are many exciting new leads that hold promise. The availability of good recently developed animal models and rational approaches to surgical therapy and drug development suggest that we may soon be able to treat this disorder more effectively. The following promising research is continuing:

The possibility of slowing the progression of PD with the drug deprenyl, or a similar compound, has stimulated the search for ways to identify patients before they begin to develop symptoms so they may benefit from protective therapy.

Investigations of causes, such as environmental and endogenous toxins, genetic predisposition, and altered motor circuitry and neurochemistry are continuing. New epidemiological studies have been initiated to identify other possible risk factors for this disorder.

The search for new and improved therapeutic interventions continues. Animal models are being used to study the pathophysiology of the disease and develop novel therapies. Clinical studies on improvements in levodopa therapy, including controlled-release formulations, offer the most immediate promise for an improved quality of life for many patients.

NINDS intramural scientists are working to develop a drug--a dopamine agonist--that will target the specific dopamine receptors involved in PD, and bypassing the related but distinct receptors involved in the negative side effects now experienced by nearly half of the patients receiving levodopa.

Work is continuing to determine whether deprenyl and anti-oxidants may reduce or neutralize toxins and actually prevent brain cell destruction, to determine longer term effects of these compounds, and to explore the efficacy of other drugs to treat PD.

NINDS intramural scientists showed this past year that a new drug--Ro 40-7592--blocks the breakdown of dopamine and levodopa, and prolongs relief of symptoms by more than 60 percent when added to standard treatment. This helps patients avoid the "wearing-off effect" while taking fewer doses and smaller amounts of the standard levodopa/carbidopa medication. Findings from this small study are to be tested in larger populations.

A major clinical trial is studying the efficacy of transplanting fetal tissue into patients with advanced PD. Research on other surgical approaches, causing specific focally placed lesions in the motor circuitry of the brain, will also be supported. A controlled clinical trial to study the effect of a very promising surgical approach, called pallidotomy, has begun. This study will verify the safety and efficacy of this technique, optimize target location, and provide information on improvement in movement, cognition, and behavior in patients with PD.

The NINDS supports experimental methods, such as alternative tissues, growth factors, and genetically engineered cells, that could someday preclude the need to use human fetal tissue in the implantation procedure. Genetically engineered connective tissue cells and dopamine-producing cells encased in polymer beads are examples of such approaches to treatment. Other avenues include utilizing human fetal tissue grown in culture.

NINDS intramural scientists are beginning to understand what causes the specific nerve cell degeneration involved in PD. They are encouraged that stimulating trophic factors can help in the repair of the dopamine-producing nerve cells that are not yet destroyed, but are weakened, by the effects of PD. There is increasing evidence that several factors play a role in the maintenance of healthy nerve cells and possible recovery of those that are damaged. Further work is needed to determine if these factors can help prevent the degeneration of nerve cells.

NATIONAL HEART LUNG, BLOOD INSTITUTE

Question. Dr. Lenfant, last year Congress encouraged the NHLBI to fully fund the National Center on Sleep Disorders Research. What is the estimated budget for the Center for FY 1995?

Answer. The FY 1995 Appropriation includes $15.5 million for the National Center for Sleep Disorders Research (NCSDR). The FY 1996 President's Budget for the Center is $17.8 million. In addition to this amount, other components of the NIH will fund approximately $55.6 million on sleep related research at the FY 1996 President's Budget level.

Question. Has the National Center been successful in collaborating other Institutes and government agencies on public awareness activities?

Answer. Yes, the Center has been successful in collaborating with other Institutes and government agencies on public awareness activities. For example, the Center conducted a collaborative project with National Institute of Child Health and Human Development (NICHD) and Public Health Service (PHS) called "Back to Sleep", which emphasizes placing babies on their backs to reduce the risk of Sudden Infant Death Syndrome (SIDS). The NCSDR has also developed and broadcast several radio scripts on the importance of sleep to health and the symptoms of sleep apnea. Another series of scripts are being developed on the dangers of driving sleepy, insomnia, and the relationship of sleep apnea to hypertension.

Question. How can this collaboration be improved?

Answer. Collaboration is already an important component of Sleep Center activities, and the mechanisms to develop and carry out new collaborative activities are in place. The Sleep Disorders Research Advisory Board and the Trans-NIH Sleep Research Coordinating Committee will identify areas for public education activities and oversee their implementation. At the present time, the Center is exploring potential areas of collaboration and joint education activities with the Department of Transportation, National Sleep Foundation, and private sector organizations.

Question. What is the status of the Director of the Center?

Answer. A permanent Director for the Center was appointed in February 1995. Currently, this person is working at the Center part-time. As the management needs of this important area grow, the National Heart, Lung, and Blood Institute will consider increasing the amount of time this person devotes to the Sleep Center.

CHEMICAL SENSITIVITY ISSUE

Question. Dr. Olden, what is NIEHS doing in the area of chemical sensitivity?

Answer. Chemical sensitivity research at NIEHS has focused on sensitivity to a number of topically applied or inhaled agents such as pesticides, ozone, acid aerosols, and allergens. This research suggests that chemical sensitivity may develop after disruption of the complex integration of the immune, endocrine, and nervous systems. More basic research must be performed so that susceptible individuals can be identified and proper prevention and intervention strategies can be designed.

In FY 1994, NIEHS spent $7.7 million of appropriated funds on research related to chemical sensitivity. In addition, the Institute supported chemical sensitivity research in the amount of $3.3 million using funds available under EPA's Superfund Basic Research Program and other interagency agreements. NIEHS has and will continue to coordinate our research efforts with the Department of Defense and the Veterans Administration to provide better scientific understanding of the problems encountered by veterans of the Desert Storm campaign.

Question. Dr. Olden, I am advised that an environmentally-controlled hospital unit or Environmental Medical Unit is needed to study chemical sensitivity. What is the Institute doing to help sponsor an Environmental Medical Unit?

Answer. The NIEHS is not at present supporting an Environmental Medical Unit nor specific research utilizing such a facility. NIEHS has received research grant applications in the past but they have not had sufficiently high scientific evaluations to justify funding.

Question. Is the Institute contemplating funding human exposure studies in an environmental unit as opposed to chamber challenge studies which do not remove sick individuals from background exposures that may be triggering symptoms?

Answer. An Interagency Workgroup, including representation from Agency for Toxic Substances and Disease Registry (ATSDR), and Centers for Disease Control and Prevention, and NIEHS, has been meeting and drafting a report on the research needs for understanding this disease. In addition, the ATSDR has also sponsored conferences on chemical sensitivity during the last two years. There are differences of opinion in the scientific community at these meetings as to the most appropriate way to study this disease. One possibility is to house these patients in an environmental medical unit to study their symptoms after exposures in a controlled environment; however, such studies would be very expensive and only a small number of patients could be thoroughly studied.

Question. Dr. Olden, what is the Institute doing to determine whether specific exposures, such as pesticides, solvents and sick buildings, may be responsible for causing or exacerbating chemical sensitivities?

Answer. NIEHS is funding approximately 40 research projects related to chemical sensitivity. Most of these projects are basic research studies using animal models to determine specific chemicals or classes of chemicals that cause hypersensitivity. These investigators are also trying to determine which physiological systems are involved in the syndrome, the changes that occur, and how these changes can be reversed or treated. The environmental agents under investigation include pesticides, polychlorinated biphenyls (PCBs), dioxin, acid aerosols, allergens, and combinations of these agents.

Question. I am advised that NIEHS handles the Superfund Basic Research Program. People argue about the exposure levels around toxic waste dumps. Some say the levels are very low, but a lot of people around these waste dumps say they're ill. Dr. Olden, has the Institute looked to see if people around dump sites suffer from chemical sensitivity?

Answer. NIEHS administers the Superfund Basic Research Program through an interagency agreement with the Environmental Protection Agency. The Program supports research on chemical sensitivity. Our grantee at Rutger's University is studying a group of 40 patients who have hypersensitivity to chemicals and their odors. Chemical sensitivity is an extremely difficult problem to investigate because of the widely varied responses in the people who are affected. The levels of chemicals that cause these effects are extremely low in most cases, usually in the parts per million range such as might be seen in ground water contamination downstream from a Superfund site. One hypothesis for the illness is that an olfactory response triggers other brain functions resulting in hypersensitivity. Our investigations are aimed at finding out who is susceptible and why.

Once we have determined why some people are sensitive and others are not, then we can try to develop some treatments or prevention strategies.

CLINICAL RESEARCH

Question. In September of last year, the Institute of Medicine (IOM) issued a compelling report on careers in clinical research. This report sounded an alarm about the loss of physicians from the ranks of our nation's researchers and highlighted particularly the difficulties physicians have training for and pursuing careers in patient-oriented research. This report offered some specific recommendations as to steps that NIH could take to enhance the environment for clinical research and clinical research training. What has NIH done to date in terms of examining and implementing the IOM recommendations?

Answer. A summary of the NIH activities in implementing the IOM recommendations are outlined as follows:

- Data Analysis: Since 1990, the NIH has implemented a centralized computer code that identifies grants and projects that involve human subjects. More recently, we have implemented a system that identifies clinical trials. The latter code should identify the subset of human subject research that is distinct from those using materials from humans.

- Study Section Oversight: DRG has developed a pilot experiment involving the clinical research study sections. The objective is to optimize the assignment of patient-oriented research applications to those study sections that review an appreciable number of such applications. The pilot study will begin in June. Results from the pilot experiment may inform us of ways to optimize the use of clinical research study sections.

In addition, the Report of the Working Group on the Division of Research Grants contained a number of recommendations that should improve peer review in general. In particular, it recommended that the study section membership be diversified with attention to increased breadth of expertise. This may encourage physicians and other medical professionals to participate as reviewers.

The report also contained a recommendation for the establishment of a new central oversight body, the Peer Review Oversight Group that will coordinate, evaluate, and make policy recommendations for all peer review conducted at the NIH, both within DRG and in the ICs. It will be chaired by the Deputy Director for Extramural Research and will include scientists from the extramural research community. We have begun the nominating process for members of this Group.

- Newly Independent Investigators: In addition to the FIRST award which is open to both basic and clinical investigators, individual Institutes/Centers (I/Cs) have also developed similar programs that fulfill the Institutes' mission. For example, NCI recently issued an RFA, Investigator Grants for Clinical Therapy Research. The RFA was developed to address the lack of suitable mechanisms for the training and funding of clinical oriented investigators involved in translating basic research into new cancer treatment.

- Debt Relief Packages: The NIH developed the loan repayment program a few years ago for investigators interested in doing AIDS research. Recently, the program has been expanded to include disadvantaged clinical investigators, regardless of the area of clinical investigation.

- Medical or Dental Scientist Training Programs: The National Center for Research Resources (NCRR), in consultation with its National Advisory Council, has carefully reviewed options for expanding the availability of the Clinical Associate Physician and Minority Associate Physician awards to institutions with General Clinical Research Centers and has made changes in the guidelines for these programs to enhance the number of awards. In addition, the NCRR has established a new award called the Clinical Research Scholars Program to enable clinical investigators to concentrate for one year on curriculum based studies such as clinical research design, bioethics, biostatistics, and epidemiology which, in some instances, could lead to an advanced degree. All of these initiatives will encourage and support physicians and dentists to further their careers in clinical research and enable them to become independent clinical research scientists and investigators in the future.

Question. The report also recommends the creation of a national body to monitor clinical research and training needs and make recommendations to Congress and the academic community. I am interested in seeing this recommendation become a reality. How do you believe such an advisory group should be structured and funded and where should it be housed?

Answer. NIH has recently established the Director's Panel on Clinical Research that is composed of distinguished individuals with expertise and knowledge about clinical research. The panel will discuss a broad range of issues including training of clinical researchers, funding for clinical research, and clinical trial issues. The Director's panel will report to the Director of the NIH through the Advisory Committee to the Director (ACD). It will be funded from the ACD budget.

DRG ANALYSIS

Question. I was interested to learn about the Division of Research Grants (DRG) analysis of how patient-oriented research applications are reviewed. I found it alarming that the study concluded that patient-oriented research fares less well in the peer review process than laboratory research. The DRG report included some specific recommendations for addressing this problem. What has NIH done since the report was issued in November to implement these?

Answer. DRG has developed a pilot experiment involving the clinical research study sections. The objective is to optimize the assignment of patient-oriented research applications to those study sections that review an appreciable number of such applications. The pilot study will begin in June. Results from the pilot experiment may inform us of ways to optimize the use of clinical research study sections.

In addition, the Report of the Working Group on the Division of Research Grants contained a number of recommendations that should improve peer review in general. In particular, it recommended that the study section membership be diversified with attention to increased breadth of expertise. This may encourage physicians and other medical professionals to participate as reviewers.

Patient-oriented research is a critically important part of our portfolio and will be prominent as we move to review and strengthen all peer review at the NIH.

Question. Similar to the Institute of Medicine (IOM) report, the DRG report focused on the need to improve training and career development opportunities for young clinical investigators. Is NIH developing a plan for doing so?

Answer. Training of young clinical investigators is an important issue for the NIH. The NIH Clinical Center recently launched a training course on the design and conduct of clinical trials and related clinical research issues. The course is currently offered to the NIH clinical associates, but it is adaptable to other audiences. In addition, clinical research training and the ability of academic health centers to support training under the managed care climate will be a topic for discussion by the Director's Panel on Clinical Research.

NAS STUDY

Question. I know you share my concern about the National Academy of Sciences Study released last year revealing a 54% decline between 1985 and 1993 in the number of individuals aged 36 and under applying to NIH for support. It seems to me from the IOM and DRG analyses that this problem may be more acute among physicians. Has the NIH asked the Academy to analyze MDs and PHDs separately in its follow up study?

Answer. The NIH is concerned about this issue. The NIH has data to support the perception that the problem may be more acute among physicians.

ACADEMIC HEALTH CENTERS

Question. The lay and medical press are focussing considerable attention on the problems academic health centers have in the current environment where managed care is expanding rapidly. A recent Federal study concluded that managed care plans are not willing to accommodate financially the special needs and problems of these centers. Has the NIH attempted to quantify the impact that competition is having on the research programs of our nation's medical centers?

Answer. The National Center for Research Resources (NCRR) has preliminary information that investigator recruitment of research subjects across its network of General Clinical Research Centers (GCRC) is being negatively impacted by managed care organizations. In those geographic areas in which managed care has penetrated significantly, patient referrals for clinical research projects has been most markedly impacted and that trend continues to evolve. Some managed care organizations (MCOs) are refusing to allow their patients to participate as clinical research subjects. Other MCOs allow their patients to participate. Much more work needs to be done to define the breadth and depth of the impact of MCOs on clinical research. We are in the process of doing that.

Question. With so much of NIH's mission being carried out in these Centers, shouldn't the NIH play a leadership role in analyzing this situation and making recommendations as to how we can protect the research efforts of our Academic Centers?

Answer. On behalf of NIH and in conjunction with the Office of the Assistant Secretary for Health, the Director of the National Center for Research Resources is working with a contractor knowledgeable in managed care and related issues to develop an approach, in concert with broad representation from the academic health centers, clinical investigators, MCOs and NIH program staff. As a result of this interaction, recommendations will be developed to assure patient access for NIH-supported research.

Both the DRG and IOM reports focus on the General Clinical Research Centers Program of the NCRR as an important site for high quality patient-oriented research. Given the cost-containment pressures we have just discussed, these Centers are becoming far more important and should be enhanced and expanded. What steps is NIH taking to strengthen the GCRC Program?

Answer. The NCRR has taken several steps to strengthen the GCRC Program. To enhance the availability of clinically applicable gene vectors for human studies, the NCRR will cosupport National Gene Vector Laboratories. These Gene Vector Laboratories will allow investigators with Recombinant DNA Advisory Committee approved vectors to have clinical grade vectors for human gene therapy produced, safety tested, and distributed without additional cost. NCRR also has initiated a program to upgrade existing GCRC core facilities to accommodate a new field of experimentation in cellular therapies. The GCRC Program will increase clinical research junior career development by accommodating more physicians and dentists through the Clinical Associate Physician and Minority Clinical Associate Physician programs. The GCRC program is also initiating the Clinical Research Scholar Program for physicians and dentists interested in one year of dedicated curriculum-based studies to prepare them for further clinical research studies and careers in clinical investigation.

Question. A 1993 panel report recommended that the NIH Director's office develop mechanisms to insure the expanded involvement of all NIH institutes in maximum use of GCRCs. Has this been done?

Answer. The General Clinical Research Centers provide the infrastructure (hospital inpatient and outpatient facilities, trained research nursing, bionutritionists, computer systems and systems managers, biostatisticians and a variety of core laboratory services) to facilitate the work of NIH funded investigators who receive their funding from all NIH Institutes and Centers. The GCRC program staff tracks each Request For Applications from all other NIH Institutes and Centers to insure that they are aware of NCRR's willingness to provide the clinical research infrastructure for their studies. The NCRR-based director of the GCRC program and its staff participate in most Task Forces or multi-institute advisory groups pertaining to clinical research.

Question. That same report recommended the development of a national clinical research agenda. Have you made progress in this area?

Answer. NCRR, in concert with the research community, will be updating its Strategic Plan. Clinical research is a central focus of that plan as well as the pivotal role GCRCs play in facilitating clinical research. As a result of recommendations developed in conjunction with the academic research community, NCRR expanded its programs for career development for patient oriented research, modified the role of GCRC core laboratories so that they provide shared resources for multi-disciplinary research, initiated development of National Gene Vector Laboratories and have initiated workshops and curricula for clinical research at GCRC sites.

Question. The report also recommended a number of new initiatives: a debt forgiveness program for clinical research trainees in the GCRCs, some changes in the rules governing training awards for young physician scientists, a new program for the retraining of mature clinician scientists. What progress has been made on these initiatives since they were recommended several years ago?

Answer. No debt forgiveness program for clinical research trainees exists in the academic research community. However, one does exist for disadvantaged physicians in the NIH intramural program, and NCRR is reviewing the potential of such a mechanism. NCRR has also considered a re-entry career development program for mature clinical scientists but deferred its implementation because of other higher priorities.

OMBUDSMEN

Question. It is my understanding that soon after coming to NIH, you stated that you would appoint two ombudsmen to circulate in the research community and serve as your eyes and ears regarding challenges and opportunities. The ombudsmen for basic research was appointed soon after your arrival. It is my understanding that the counterpart advisor for clinical research was only recently appointed. Dr. Laurence Shulman, who served with distinction as the Director of NIAMS, is an excellent choice. How will he function in this new role and how will he make up for the lost time during which you had only a basic science advisor?

Answer. I am pleased to report to you that Dr. Shulman has already accomplished a great deal as my emissary to the clinical research community. He has made substantive visits to eight biomedical research universities, as well as to eight other institutions with vital interests in clinical research. At each university, he has discussed the many aspects of clinical research and clinical research training with those involved at different academic levels. During the sessions, he has focused on the types of professional engaged in patient-oriented research, the scope of clinical investigations, training and career development for these investigations, and academic and other job opportunities in the field of clinical research.

Other issues that were discussed include the support of clinical investigations (by institutions, Government and industry), types of research grants available and peer review of grants applications for clinical research, and the types of partnerships that are desirable.

At a May 31 meeting of the Advisory Committee to the Director, NIH, Dr. Shulman gave a highly informative review of his activities to date. He outlined the general perceptions of the current state of clinical research, some obstacles to achievement in this area and several recommendations for initiatives for us to consider. He was encouraged by the high level of interest by academic leaders in patient-oriented research. He also presented an interesting list of special research opportunities; a new classification of clinical research; and an impressive list of new formal training programs that have been developed at the universities for clinical research.

Dr. Shulman will be making another report on his activities as emissary in early July at the first meeting of the NIH Director's Panel on Clinical Research which I have recently organized.

QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

INSTITUTIONAL DEVELOPMENT AWARDS (IDeA) PROGRAM

Question. How does the National Center for Research Resources' Institutional Development Awards (IDeA) program meet the requirements of Section 202 of the NIH Revitalization Act of 1993?

Answer. The IDeA Program of the NCRR meets all the requirements of Section 202 of the NIH Revitalization Act of 1993, providing support to enhance the competitiveness for NIH research funding of entities that conduct biomedical and behavioral research and are located in states in which the aggregate success rate of applications for NIH funding has been lower than the success rate for other states.

Question. Both the House of Representatives and the Senate Appropriations Committees have consistently expressed strong support for NCRR's IDeA Program. Last year this Committee's report urged NIH "to increase significantly its funding for the IDeA Program over the 1994 level" in order to "allow more flexibility for cross-linked, multidisciplinary capacity building initiatives." How has NIH responded to that directive?

Answer. Funding for the IDeA Program in 1995 is at a level of $1,100,000, representing an increase of 40 percent over the amount awarded in 1994.

Question. The report also urged NIH "to continue to coordinate its efforts with the National Science Foundation and with the multi-agency EPSCoR activities of the Office of Science and Technology Policy." How is NIH complying with this directive?

Answer. NIH coordinates its efforts with the National Science Foundation and with the multiagency Experimental Program to Stimulate Competitive Research (EPSCoR) activities of the Office of Science and Technology Policy through formal participation as a member of the EPSCoR interagency Coordinating Committee, and through ongoing informal contacts and joint activity planning and implementation with the officials responsible for EPSCoR and EPSCoR-like programs in other Federal agencies.

At the present time, NIH and the Department of Energy (DOE) are examining with the National Science Foundation (NSF) the possibility of including the NIH and DOE programs in the EPSCoR evaluation project being formulated at NSF.

Question. NCRR has made a total of 15 awards thus far under this Program. Please describe those awards. Is it possible to discern any benefits resulting from those awards this early in the Program?

Answer. The 15 awards made under the NCRR IdeA program have gone to institutions in 11 states. The initial awards in 1993 were for one year; subsequent awards have been for two years. The maximum annual direct cost for all awards is $100,000. The scientific activities proposed under these awards include molecular and cellular studies of specific diseases or biological functions, technology development for imaging and monitoring of physiological regulation, and genetic and behavioral studies related to heart disease and AIDS. Specific benefits cannot yet be described, since few studies have been completed, but it is clear that the grants have had an impact well beyond their dollar value.

Question. What are the plans for this Program in FY 1995?

Answer. In FY 1995, two new awards have been made to institutions that applied to the program in response to the FY 1994 solicitation of applications. The remainder of the funds available will be used to fund the second year of the grants awarded last year.

Question. NCRR's budget justification material indicates that approximately "ten new competitive awards will be made in FY 1996." Is funding adequate to support this recommendation? How much funding will that require? Please describe the funding cycle for this Program.

Answer. The 1996 President's Budget for the NCRR includes $1,100,000 for the IDeA Program. This funding should be adequate to make about ten new awards. Generally, the funding cycle is for a two-year grant period, with competing awards made the first year, and noncompeting continuations awarded the second year.

Question. How do you foresee the IDeA Program developing in the near-term and in the long-term?

Answer. The National Center for Research Resources' (NCRR) Institutional Development Award (IdeA) is a new program, developed in Fiscal Year 1993 as a result of increasing Senate interest in ensuring that NIH funds reach a broader geographic base for biomedical and behavioral research.

It is important for the NIH to evaluate whether IdeA, in its current form, is indeed fulfilling the Congressional objective of improving the competitiveness of its awardees for receiving future NIH funds. Evaluators need to measure not only changes in success rates for obtaining funding, but also any contributing changes in the research environments and personnel.

The NCRR staff are investigating the possibilities of coordinating their evaluation with the National Science Foundation (NSF) evaluation of it's Experimental Program to Stimulate Competitive Research (EPSCoR). NCRR has received funding for a phase I evaluation of the IdeA program to assess short-term results. Because of the similarities between the programs, an IdeA evaluation will be greatly facilitated by an initial examination of current and past EPSCoR evaluation strategies.

For the short term, NCRR will continue to work with the community to evaluate progress and to explore new ways to strengthen research and research-focused activities at IdeA institutions.

Question. How will IDeA grant recipient institutions be integrated into "mainstream" NIH biomedical research programs in the years following their initial awards?

Answer. It is anticipated that under the support of the IDeA grants the participants will be able to generate pilot data and to lay strong foundations for their research that will allow them to compete for regular NIH grants in the future.

QUESTIONS SUBMITTED BY SENATOR SLADE GORTON

BIOMEDICAL RESEARCH FUNDING

Question. Given our limited budget on biomedical research, the appropriations process becomes an annual rationing of limited funds for unlimited needs to fight diseases and illness in society. The painful task of allocating scarce biomedical research dollars is accomplished each year with remarkable success by the chairman and ranking member. In order to make that process less difficult, I would like Members of Congress to have access to recommended criteria to assist them in making decisions on biomedical research funding. Suggested criteria include the following:

(a) The populations affected by, or potentially affected by diseases and conditions that are targets for research;

(b) The incidence and prevalence rates of disease and conditions;

(c) Mortality rates of the disease and conditions;

(d) Rates of morbidity, impairment disability, and health status and functional outcomes of the diseases and conditions;

(e) The economic burden of the diseases and conditions including past and projected expenditures on diagnosis and treatment;

(f) Other economic and social burdens; and

(g) Potential for medical research on specific diseases to assist basic research efforts.

Question. Are such criteria necessary or desirable in your opinion?

Answer. A rational basis for making decisions about the allocation of scarce biomedical research funds is necessary, desirable, and in the public interest. The criteria listed above are important indicators of the dimensions of a particular disease, but they need to be augmented by several other considerations. In addition to reflecting the burden of a particular disease, research support decisions should also be based on the level of scientific advances and opportunities in an area and the availability of research tools to pursue certain fields of research. Research advances often create greater scientific opportunities for research and development in one disease area than in another. Conversely, a lack of knowledge regarding underlying pathophysiological processes can inhibit the development and evaluation of diagnostic and therapeutic technologies for other conditions, regardless of their social burden.

Much of the research supported and conducted by NIH is basic in nature, and tangible results of scientific inquiry cannot always be defined or planned in advance. The NIH relies heavily on non-directed, investigator-initiated research to generate the most creative ideas for advancing scientific knowledge about human health and disease. In some cases, research is undertaken to learn more about the normal developmental, physiological, or even population-related processes. In addition, because of the interdependent nature of scientific knowledge, there are significant overlaps among different fields of research--even when they are targeted toward apparently unrelated areas. For example, progress in such fields as rational drug design, gene therapy, and bioengineered vaccines have resulted from fundamental support in fields of genetics, immunology, cell and molecular biology, biophysics, and biochemistry. These burgeoning technologies may supplant present interventions that address symptoms rather than cure or prevent disease, and may have a profound impact on the economic costs of illness in the United States.

Another caveat about the use of the criteria is that the data for the indicators are not available for every disease. Published data on incidence, prevalence, mortality, and measures of morbidity are most readily available only for major diseases and broad disease categories. Compiling data on the hundreds of more narrowly defined diseases addressed by NIH research and development programs would require considerably more expense and effort, including the collection of original primary data for many of the diseases. Information on disability, health status and functional outcomes of diseases and conditions are generally incomplete. Such information is also costly to collect.

A third caveat in using the criteria is that they can be in conflict with one another. For example, chronic conditions such as arthritis and Alzheimer's Disease reduce functioning and cause considerable pain and emotional distress, but neither condition is a major contributor to lost years of life due to premature death. As such, policy makers will need to consider the relative importance or weight to be placed on each criteria when assessing the overall societal burden imposed by each disease. Further, there is no assurance that the criteria will accurately capture how the general population perceives and ranks the pain, suffering, and premature death resulting from a given disease or condition. Yet, this information is also vital in assessing the burden of disease.

With regard to criteria listed in (e) and (f), comprehensive data on disease-specific costs of illness are not routinely collected. There is wide variation in the approaches used to estimate costs of illness for different diseases resulting in incomparable cost estimates for different diseases. Furthermore, the multifactorial nature of disease--patients present with multiple conditions--complicates the attribution of costs and related measures of burden to specific diseases.

Finally, it is difficult to envision how criteria (g) could usefully be incorporated in research allocation decisions. Because any future benefits of disease-specific research for basic research are highly uncertain, this criteria provides no operational basis for allocating funds to one disease area over another. A more effective approach is to pursue new scientific advances and research tools that offer potential insights and promise for identifying important aspects of disease processes or possible cures.

Question. Could you please comment whether these criteria would be useful in assisting us in making better decisions?

Answer. The criteria provide a systematic checklist or set of questions to assure that NIH research activities are linked to the betterment of human health and that a range of important problem areas are considered. While they should be interpreted with caution for the reasons outlined above, the criteria can be helpful to Congress in anticipating and responding to the public interest.

Two other points are worth noting, however. First, application of the criteria are probably more useful for allocation of resources for health care services where technology is relatively known and stable. For research projects, the link between resource allocation and successful contribution to the alleviation of disease burden is much less direct, and much more difficult to measure and predict. Research is forward looking, and the timing and the extent of benefits for improved health are highly uncertain. Assessments of promising lines of research depend on well-informed judgement regarding the implications of recent scientific advances and research experience upon future investments in the research.

Second, research funding decisions will also reflect concerns about equity among groups of potential beneficiaries of the research as defined in terms of age, sex, and ethnic origin. Certain criteria favor one group over another. For example, mortality rates and measures of the impact on functioning may favor the elderly whereas measures of economic impact, such as lost productivity, would favor younger citizens.

In sum, measures of disease burden cannot alone provide sufficient basis for decisions about the allocation of funds for biomedical research. In developing strategies and budgets for research and development programs, a well-informed judgment is still required to synthesize information about the broader dimensions of disease burden with knowledge of scientific opportunities.

Question. Is it possible to publicize and circulate this information on a regular basis before appropriators make funding decisions?

Answer. Each year in annual reports and testimony to Congress, the NIH provides available disease specific data. Two agencies of the Public Health Service--the Agency for Health Care Policy and Research and the Center for Disease Control, especially its National Center for Health Statistics (NCHS)--compile and publish data on major diseases and broad disease categories. The annual publication Health United States (NCHS, CDC) conveniently summarizes much of this information.

Question. What do you think would be the impact on the biomedical research performed at individual institutes if such systematic criteria were used?

Answer. If systematic use of the criteria outlined above means that other criteria would not be considered, the research studies supported and conducted by individual institutes would begin to discount areas of science that may have the most promise for advancing knowledge against a broad range of diseases and conditions. If, however, the deficiencies associated with data collection would be corrected, and over time more detailed, high quality data is developed on all of the criteria, there might conceivably be a change in the perception of the relative burden of specific diseases. This could lead to adjustments in the portfolio of applied research and development and clinical research studies.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

WOMEN IN SCIENCE

Question. What progress has NIH made in addressing deficiencies in terms of the advancement of women scientists, as well as workplace harassment? This is a serious issue that I am concerned about.

Answer. Early in his tenure as Director of the NIH, Dr. Varmus became aware of allegations of inequities in hiring, allegations of hostile work environments for women, and general employment practices that tended not to include women, minorities and people with disabilities. He immediately began to take steps to eliminate barriers to equal opportunity for all NIH employees. For example, in October 1993, the NIH Office of Equal Opportunity (OEO) entered into an interagency agreement with the Departmental Appeals Board, Department of Health and Human Services, to institute a mediation process for resolving complaints. These procedures allow employee concerns to be addressed by third party neutrals. In addition, in September 1994, NIH hired a new senior executive with substantial EEO experience to run the OEO. She has been specifically tasked with making NIH a more fair and open agency responsive to both employees and management.

In an effort to identify the underlying causes for a high rate of separation identified for women, the NIH began piloting a "separation questionnaire" in September 1994. The voluntary questionnaire elicits information on the departing employee's work environment, and the reasons why the employee has chosen to leave the NIH. The OEO is in the process of analyzing data received for the first two quarters of FY 1995. Four hundred twenty-two employees have left the NIH during this time period for various reasons, including retirements and buyouts. Only 90 employees (21 percent) voluntarily returned their separation questionnaire. Two hundred fifty-nine of the employees who left are women, while 53 of those who returned the questionnaire are women, including six in scientific occupations. At this point, the NIH has insufficient data to provide meaningful information on why women leave the NIH at a slightly greater rate than men. Anecdotal information includes both the theory of better opportunities elsewhere, and the theory of the unfriendly work environment. The NIH will continue to pilot the separation questionnaire and explore other options such as exit interviews to help better determine why women scientists leave.

The NIH also established a Women Scientist Advisor (WSA) to the Scientific Director in each Institute. Each WSA is responsible for bringing women scientists' issues, including promotion and pay equity concerns, to the attention of senior management. The WSAs are a crucial link to assist the OEO and management in eliminating barriers to the retention of women.

In FY 1995, the NIH established a process to resolve claims concerning pay levels from scientists in the Intramural Research Program. This process is open to women scientists where there are demonstrated disparities between the pay for men and women scientists who are similarly situated.

With respect to informal complaints of sexual harassment filed at the NIH, seven were filed during FY 1994. As of May 25, 1995, four were filed during FY 1995. Two of the four FY 1995 complaints are currently under review; one could not be resolved informally and the complainant has filed a formal complaint; and the fourth complaint, the complainant chose not to pursue the matter.

PARKINSON'S DISEASE

Question. What is your view of the potential for breakthroughs in the treatment of Parkinson's?

Answer. Investigators report that there are many exciting new leads that hold promise. The availability of good recently developed animal models and rational approaches to surgical therapy and drug development suggest that we may soon be able to treat this disorder more effectively. The following promising research is continuing:

The possibility of slowing the progression of PD with the drug deprenyl, or a similar compound, has stimulated the search for ways to identify patients before they begin to develop symptoms so they may benefit from protective therapy.

Investigations of causes, such as environmental and endogenous toxins, genetic predisposition, and altered motor circuitry and neurochemistry are continuing. New epidemiological studies have been initiated to identify other possible risk factors for this disorder.

The search for new and improved therapeutic interventions continues. Animal models are being used to study the pathophysiology of the disease and develop novel therapies. Clinical studies on improvements in levodopa therapy, including controlled-release formulations, offer the most immediate promise for an improved quality of life for many patients.

NINDS intramural scientists are working to develop a drug--a dopamine agonist--that will target the specific dopamine receptors involved in Parkinson's Disease (PD), and bypassing the related but distinct receptors involved in the negative side effects now experienced by nearly half of the patients receiving levodopa.

Work is continuing to determine whether deprenyl and anti-oxidants may reduce or neutralize toxins and actually prevent brain cell destruction, to determine longer term effects of these compounds, and to explore the efficacy of other drugs to treat PD.

NINDS intramural scientists showed this past year that a new drug--(Ro 40-7592)--blocks the breakdown of dopamine and levodopa, and prolongs relief of symptoms by more than 60 percent when added to standard treatment. This helps patients avoid the "wearing-off effect" while taking fewer doses and smaller amounts of the standard levodopa/carbidopa medication. Findings from this small study will be tested in larger populations.

A major clinical trial is studying the efficacy of transplanting fetal tissue into patients with advanced PD. Research on other surgical approaches, causing specific focally placed lesions in the motor circuitry of the brain, will also be supported.

A controlled clinical trial to study the effect of a very promising surgical approach, called pallidotomy, has begun. This study will verify the safety and efficacy of this technique, optimize target location, and provide information on improvement in movement, cognition, and behavior in patients with PD.

The NINDS supports experimental methods, such as alternative tissues, growth factors, and genetically-engineered cells, that could preclude the need to use human fetal tissue in the implantation procedure. Genetically-engineered connective tissue cells and dopamine-producing cells encased in polymer beads are examples of such approaches to treatment. Other avenues include utilizing human fetal tissue grown in culture.

NINDS intramural scientists are beginning to understand what causes the specific nerve cell degeneration involved in PD. They are encouraged that stimulating trophic factors can help in the repair of the dopamine-producing nerve cells that are not yet destroyed, but are weakened, by the effects of PD. There is increasing evidence that several factors play a role in the maintenance of healthy nerve cells and possible recovery of those that are damaged. Further work is needed to determine if these factors can help prevent the degeneration of nerve cells.

Question. How is diabetes research supported by the Office of Research on Minority Health (ORMH), as well as other Institutes, coordinated with National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)?

Answer. The collaboration between the ORMH and the NIDDK was formally established in FY 1993 through a Memorandum of Agreement reflecting the interest of both organizations to jointly support diabetes research. The successful partnership now includes ORMH support of component studies of the NIDDK Diabetes Prevention Program, which focuses on preventing non-insulin-dependent diabetes mellitus (NIDDM). These include: prevention of NIDDM in obese minority women with a history of gestational diabetes; the pathogenesis of NIDDM in Mexican American women to identify early metabolic defects in Mexican American women who are at high risk for NIDDM because of prior gestational diabetes mellitus (GDM); a component of the New Mexico Clinical Center focusing on Native Americans and Mexican Americans to test the effectiveness of behavior modification including diet and exercise therapy, versus oral medication, in preventing onset of NIDDM; education and group support for diabetic Hispanics to determine the efficacy of a culturally-relevant, community-based intervention aimed at improving the health of diabetic Mexican-Americans and their families; a community-based intervention study to increase adolescent physical activity of a type that can be sustained in adulthood, and decrease in consumption of sodas, candy, and baked goods through curriculum inputs, development of a teen wellness center, and a teen wellness task force; primary prevention of diabetes in urban Native American elementary school age children in the Minneapolis-St. Paul area to demonstrate the reduction or risk factors associated with diabetes, including physical inactivity, high fat/low-fiber diets, and obesity; and a family-centered diabetes project for Pueblo Indians to determine whether a diabetes lifestyle program delivered by a professional within the setting of family and friends meetings will have an impact on functional status, family functioning, nutrition and exercise habits, glycosylated hemoglobin, and medication and health care use among Native Americans with diabetes.

The ORMH also supports a portfolio of 13 research projects to elucidate the genetic aspects of the basis of diabetes in minority populations and the underlying mechanisms controlled by gene expression. Topics under study includes NIDDM and obesity in Pima Indians, biochemical predictors of NIDDM in women, as well as, biochemical mechanisms of in vivo insulin resistance.

The NIDDK communicates regularly with other NIH institutes to ensure that initiatives and activities in diabetes research are coordinated across the NIH. Collaborations between the NIDDK and other NIH Institutes and Federal Agencies are established by informal agreements and sometimes formal Memoranda of Understanding to jointly support diabetes research.

Question. Specifically, how is information shared? Are there adequate resources available in this area?

Answer. Information on NIH-supported diabetes research is shared in a variety of ways. For example, The Diabetes Information Clearinghouse (NDIC), serves as a broker and catalyst for the development and dissemination of information in the diabetes field. The target audience is health professionals, including nurses, dietitians, and diabetics. However, a large number of users are patients and their families. The NDIC responds to about 15,000 requests for information per year. The NIDDK is establishing an outreach program to disseminate information on the control of diabetes, and prevention of health complications from diabetes to patients and health care practitioners. The Diabetes Mellitus Interagency Coordinating Committee provides a forum for communication and exchange of information necessary to coordinate the activities of all Federal programs that are related to diabetes and its complications; The annual NIDDK Program Plan provides an administrative progress report on accomplishments and opportunities in diabetes research. Diabetes-related scientific workshops and conferences are held to provide a forum for disseminating information on diabetes research. NIDDK program staff confers with other Institutes and ORMH to share information throughout development and implementation of program initiatives. Diabetes-related issues are discussed at NIDDK Advisory Council meetings. The ORMH recently addressed the Council concerning ORMH collaboration with the NIH in general and with the NIDDK specifically. These are the primary means used by the NIDDK to share information on diabetes research.

OSTEOPOROSIS

Question. Although 20 million of the 25 million Americans who suffer from osteoporosis are women, critical research on both military men and women is sorely necessary. Last year, Congress appropriated $5 million under DOD's Defense Research and Engineering Office to conduct research in cooperation with NIAMS. What steps has NIAMS taken to cooperate with the Department of Defense to commence this new program?

Answer. The Institute has learned that the Department of Defense (DoD) is currently evaluating its earmarked funds to determine the most cost-effective investment strategy compatible with its commitment to battlefield preventive medicine and combat casualty care. NIAMS continues to be eager to coordinate research efforts with all organizations having an interest in osteoporosis.

PARKINSON'S DISEASE--COORDINATION OF RESEARCH

Question. What is NINDS doing to coordinate Parkinson's research among the several Institutes involved in this area?

Answer. Research relevant to Parkinson's Disease (PD) is of primary interest to NINDS, the lead Institute for research on PD as a major neurological disorder. Other NIH components supporting relevant research include: the National Institute on Aging with an interest in research on PD as a disorder with higher incidence among the aging population; the National Institute of Mental Health (NIMH) with special interest in conducting research on the neurobiological and behavioral aspects of PD; and the National Institute of Environmental Health Sciences, which supports research investigating the possible environmental elements influencing PD. Other Institutes also have a research interest in the biology of the brain as it is relevant to PD--nervous system transmitters, receptors, tissue implants, etc. The basic and related research they contribute is essential to a full understanding of the many aspects of this disorder.

Collaborations between NINDS and other Institutes' intramural branches and laboratories occur when parallel scientific lines of inquiry develop. For example, NINDS and NIMH intramural scientists are now collaborating on studies of the nerve cell receptors and transmitters involved in PD.

Inter-institute committees and task forces bring Institutes' representatives together to coordinate planning and research on disorders. For example, the Task Force on Aging, which appropriately included representatives from those Institutes sponsoring PD research, developed research plans regarding Parkinsonism among the aging population.

The standard research funding mechanisms and policies of the NIH promote coordinated research on PD. For example, referral guidelines ensure that research grant applications are assigned to the Institute or Center with the closest match in terms of mission, and require that other interested components are informed and have the opportunity to request dual assignment.

Also in accordance with NIH policy, NINDS invites the participation of other NIH components in solicitations for grant applications on research related to Parkinson's Disease. For example, in 1993, a solicitation for grant applications concerning methods of collecting, preserving, and storing fetal tissue that may be used in PD research was cosponsored by the NINDS, the National Institute of Diabetes and Digestive and Kidney Diseases, and the National Institute of Child Health and Human Development.

Question. What is the status of the consensus conference referred to in the 1995 report language?

Answer. Detailed plans for a conference on Parkinson's Disease research, with international contributions, are being finalized; and a contract task order has been issued for a conference date in August 1995.

Question. Aside from the conference itself, are any efforts underway to improve coordination of Parkinson's research among the several Institutes at the NIH?

Answer. Good coordination exists among the eight NIH Institutes and Centers (ICs) that sponsor activities related to PD as exemplified by their participation in producing the Report on Parkinson's Disease Research sent to Congress in June 1994. However, with increasing research interest, NINDS staff, at both research and administrative levels, have made additional contacts with the ICs that have major roles in PD research. For example: NINDS and National Institute of Mental Health (NIMH) intramural staff share resources such as high-technology imaging equipment with each other for PD patients; the NINDS intramural team working on PD hosts guest workers from the NIMH; potential PD research subjects who are elderly, but do not match the NINDS research protocol, are transferred to research studies being conducted by the National Institute on Aging, where they may meet study requirements; and a new collaborative effort has recently been initiated with the NIMH to pursue novel treatments, including gene therapy.

Additionally, staff from the ICs relating to extramural PD research communicate regularly, both formally and informally, as they participate in the many conferences and workshops convened each year that present a major focus on PD research. As an example, this spring NINDS served as sponsor and host for two prominent investigators studying surgical interventions for Parkinson's Disease to visit NIH and present their work to representatives from all NIH Institutes. Arrangements were made by members of the NINDS staff for these investigators to meet together with scientists of several Institutes to discuss new ideas for research and therapy.

CLINICAL RESEARCH--INSTITUTE OF MEDICINE STUDY

Congressional support for NIH over the years clearly demonstrates our understanding of the importance of basic research and serendipitous discovery. However, there are strong indications that NIH should focus greater attention on issues related to patient-oriented research and the training and career development of clinical researchers.

In September of last year, the Institute of Medicine (IOM) issued a compelling report on careers in clinical research. The report sounded an alarm about the loss of physicians from the ranks of our nation's researchers and highlighted particularly the difficulties physicians have training for and pursuing careers in patient-oriented research.

Question. That report offered some specific recommendations as to steps that NIH could take to enhance the environment for clinical research and clinical research training. What has NIH done to date in terms of examining and implementing the IOM recommendations?

Answer. A summary of the NIH activities in implementing the IOM recommendations are outlined as follows:

- Data Analysis: Since 1990, the NIH has implemented a centralized computer code that identifies grants and projects that involve human subjects. More recently, we have implemented a system that identifies clinical trials. The latter code should identify the subset of human subject research that is distinct from those using materials from humans.

- Study Section Oversight: DRG has developed a pilot experiment involving the clinical research study sections. The objective is to optimize the assignment of patient-oriented research applications to those study sections that review an appreciable number of such applications. The pilot study will begin in June. Results from the pilot experiment may inform us of ways to optimize the use of clinical research study sections.

In addition, the Report of the Working Group on the Division of Research Grants contained a number of recommendations that should improve peer review in general. In particular, it recommended that the study section membership be diversified with attention to increased breadth of expertise. This may encourage physicians and other medical professionals to participate as reviewers.

The report also contained a recommendation for the establishment of a new central oversight body, the Peer Review Oversight Group that will coordinate, evaluate, and make policy recommendations for all peer review conducted at the NIH, both within DRG and in the ICs. It will be chaired by the Deputy Director for Extramural Research and will include scientists from the extramural research community. We have begun the nominating process for members of this Group.

- Newly Independent Investigators: In addition to the FIRST award which is open to both basic and clinical investigators, individual Institutes/Centers (I/Cs) have also developed similar programs that fulfill the Institutes' mission. For example, NCI recently issued an RFA, Investigator Grants for Clinical Therapy Research. The RFA was developed to address the lack of suitable mechanisms for the training and funding of clinical oriented investigators involved in translating basic research into new cancer treatment.

- Debt Relief Packages: The NIH developed the loan repayment program a few years ago for investigators interested in doing AIDS research. Recently, the program has been expanded to include disadvantaged clinical investigators, regardless of the area of clinical investigation.

- Medical or Dental Scientist Training Programs: The National Center for Research Resources (NCRR), in consultation with its National Advisory Council, has carefully reviewed options for expanding the availability of the Clinical Associate Physician and Minority Associate Physician awards to institutions with General Clinical Research Centers and has made changes in the guidelines for these programs to enhance the number of awards. In addition, the NCRR has established a new award called the Clinical Research Scholars Program to enable clinical investigators to concentrate for one year on curriculum based studies such as clinical research design, bioethics, biostatistics, and epidemiology which, in some instances, could lead to an advanced degree. All of these initiatives will encourage and support physicians and dentists to further their careers in clinical research and enable them to become independent clinical research scientists and investigators in the future.

Question. The report also recommends the creation of a national body to monitor clinical research and training needs and make recommendations to Congress and the academic community. I am interested in seeing this recommendation become a reality. How do you believe such an advisory group should be structured and funded and where should it be housed?

Answer. NIH has recently established the Director's Panel on Clinical Research that is composed of distinguished individuals with expertise and knowledge about clinical research. The panel will discuss a broad range of issues including training of clinical researchers, funding for clinical research, and clinical trial issues. The Director's panel will report to the Director of the NIH through the Advisory Committee to the Director (ACD). It will be funded from the ACD budget.

DRG ANALYSIS

Question. I was interested to learn about the Division of Research Grants analysis of how patient-oriented research applications are reviewed. I found it alarming that the study concluded that patient-oriented research fares less well in the peer review process than laboratory research. The DRG report included some specific recommendations for addressing this problem. What has NIH done since the report was issued in November to implement these?

Answer. DRG has developed a pilot experiment involving the clinical research study sections. The objective is to optimize the assignment of patient-oriented research applications to those study sections that review an appreciable number of such applications. The pilot study will begin in June. Results from the pilot experiment may inform us of ways to optimize the use of clinical research study sections.

In addition, the Report of the Working Group on the Division of Research Grants contained a number of recommendations that should improve peer review in general. In particular, it recommended that the study section membership be diversified with attention to increased breadth of expertise. This may encourage physicians and other medical professionals to participate as reviewers.

Patient-oriented research is a critically important part of our portfolio and will be prominent as we move to review and strengthen all peer review at the NIH.

Question. Similar to the IOM report, the DRG report focused on the need to improve training and career development opportunities for young clinical investigators. Is NIH developing a plan for doing so?

Answer. Training of young clinical investigators is an important issue for the NIH. The NIH Clinical Center recently launched a training course on the design and conduct of clinical trials and related clinical research issues. The course is currently offered to the NIH clinical Associates, but it is adaptable to other audience. In addition, clinical research training and the ability of academic health centers to support training under the managed care climate will be a topic for discussion by the Director's Panel on Clinical Research.

CLINICAL RESEARCH--NAS STUDY

Question. I know you share my concern about the National Academy of Sciences study released last year revealing a 54 percent decline between 1985 and 1993 in the number of individuals aged 36 and under applying to NIH for support. It seems to me from the IOM and DRG analyses that this problem may be more acute among physicians. Has the NIH asked that Academy to analyze MDs and PhDs separately in its follow-up study?

Answer. The changes in the age profile of physicians applying for NIH traditional research grants (R01s) is very similar to the changes reported for all applicants by the National Research Council in the report, "The Funding of Young Investigators in the Biological and Biomedical Sciences". The report indicates that the number of applicants under age 36 who applied for NIH research grants declined 54 percent from 1985 to 1993. If we disaggregate by degree, we see that the number of young PhD applicants fell 54 percent from 2,445 in 1985 to 1,126 in 1993. The number of young MD applicants fell 52 percent from 538 in 1985 to 256 in 1993. These changes were also reflected in the proportion of young investigators in the applicant pool for each degree group. In 1985, 12 percent of all MD applicants were under age 36. By 1993, MD applicants under 36 comprised only 5 percent of the physicians applying for R01 support. For PhD applicants, the under 36 age group was 20 percent of the applicant pool in 1985 and 8 percent of the pool in 1993. At least for R01 grants, the situation is no worse for young MD applicants than it is for young applicants with the Ph.D. We do not yet have sufficient information to know whether the age profile of applicants in patient-oriented-research differs from laboratory based research.

It is our hope that the follow-up study by the Commission on Life Sciences of the National Research Council will examine the forces reducing the application rates of young applicants regardless of their degree or research field and will give us a better understanding of the long-term implications of these trends in age distribution of NIH Principal Investigators.

Question. Both the DRG and IOM reports focus on the General Clinical Research Centers program of the National Center for Research Resources as an important site for high quality patient-oriented research. Given the cost-containment pressures we have just discussed, these Centers are becoming far more important and should be enhanced and expanded. What steps is NIH taking to strengthen the GCRC program?

Answer. The National Center for Research Resources (NCRR) has taken several steps to strengthen the GCRC Program. NCRR has initiated a program to upgrade existing GCRC core facilities to accommodate a new field of experimentation in cellular therapies. The GCRC Program will increase clinical research training by accommodating more physicians and dentists who can apply for support through the Clinical Associate Physician and Minority Clinical Associate Physician Awards. The GCRC program is also initiating the Clinical Research Scholar Program for physicians and dentists interested in one year of dedicated curriculum-based studies to prepare them for further clinical studies and careers in clinical investigation.

Question. A 1993 panel report recommended that the NIH Director's office develop mechanisms to insure the expanded involvement of all NIH institutes in maximum use of GCRCs. Has this been done?

Answer. The General Clinical Research Centers provide the infrastructure (hospital inpatient and outpatient facilities, trained research nursing, bionutritionists, computer systems and systems managers, biostatisticians and a variety of core laboratory services) to facilitate the work of NIH funded investigators who receive their funding from all NIH Institutes and Centers. In one instance, a GCRC is cofunded with the National Institute on Aging. The GCRC program staff tracks each RFA announcement from all Institutes and Centers to insure that the categorical institutes are aware of NCRR's willingness to support clinical studies, should such facilities be required. The GCRC Program Director and staff participate in all of the Task Forces or multi-institute advisory groups pertaining to clinical research.

Question. That same report recommended the development of a national clinical research agenda. Have you made progress in this area?

Answer. NCRR, in concert with the research community, will be updating its Strategic Plan. Clinical research is a central focus of that plan as well as the pivotal role GCRCs play in facilitating clinical research. As a result of recommendations developed in conjunction with the academic research community, NCRR expanded its programs for career development for patient oriented research, modified the role of GCRC core laboratories so that they provide

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shared resources for multi-disciplinary research, initiated development of National Gene Vector Laboratories and have initiated workshops and curricula for clinical research at GCRC sites.

Question. The report also recommended a number of new initiatives: a debt forgiveness program for clinical research trainees in the GCRCS, some changes in the rules governing training awards for young physician scientists, a new program for the retraining of mature clinician scientists. What progress has been made on these initiatives since they were recommended several years ago?

Answer. No debt forgiveness program for clinical research trainees exists in the academic research community. However, one does exist for disadvantaged physicians for the NIH intramural program, and NCRR is reviewing the potential of such a mechanism. NCRR has also considered a re-entry career development program for mature clinical scientists but deferred its implementation because of other higher priorities.

Question. How do the 75 General Clinical Research Centers contribute to NIH's biomedical research programs?

Answer. The General Clinical Research Centers (GCRCS) are a nationally distributed network of centers that are usually configured as geographically discrete units within hospitals of academic medical centers. The primary mission of the GCRC program is to provide a research infrastructure for clinical investigators who receive their primary research support from other NIH components as well as other Federal and state agencies and the private sector.

The GCRCs provide resources, often otherwise unavailable, that include specialized research nurses, research dietitians, biostatisticians, computer hardware and software systems for data management and analyses, and sophisticated laboratories vital for outstanding inpatient and outpatient research. The GCRCs extend the range and intensity of clinical research by complementing the funding provided to investigators who study cancer, AIDS, heart diseases, diabetes, reproductive biology, nutrition, rehabilitation, aging, alcoholism, drug addiction, arthritis, infectious diseases, and mental disorders. They also develop new diagnostic tests and therapies and investigate scores of other health problems affecting both children and adults and involving the lungs, blood, kidpeys, and gastrointestinal tract, mirroring the research missions of all the other NIH institutes. In fiscal year 1994, over 7,000 investigators carried out nearly 5,000 clinical research projects involving more than 95,000 research inpatient days, and over 200,000 outpatient visits.

Clinical research is often time-consuming and cumbersome. The specialized personnel and other resources available at GCRCs facilitate clinical research for both investigators and research subjects.

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OMBUDSMEN

It is my understanding that soon after coming to NIH, you stated that you would appoint two ombudsmen to circulate in the research community and serve as your eyes and ears regarding challenges and opportunities. The ombudsman for basic research was appointed soon after your arrival. It is my understanding that the counterpart advisor for clinical research was only recently appointed. Dr. Laurence Shulman, who served with distinction as the Director of the NIAMS, is an excellent choice.

Question. How will he function in this new role and how will he make up for the lost time during which you had only a basic science advisor?

Answer. I am pleased to report to you that Dr. Shulman has already accomplished a great deal as my emissary to the clinical research community. He has made substantive visits to eight biomedical research universities, as well as to eight other institutions with vital interests in clinical research. At each university, he has discussed the many aspects of clinical research and clinical research training with those involved at different academic levels. During the sessions, he has focused on the types of professional engaged in patient-oriented research, the scope of clinical investigations, training and career development for these investigations, and academic and other job opportunities in the field of clinical research.

Other issues that were discussed include the support of clinical investigations (by institutions, Government and industry), types of research grants available and peer review of grants applications for clinical research, and the types of partnerships that are desirable.

At a May 31 meeting of the Advisory Committee to the Director, NIH, Dr. Shulman gave a highly informative review of his activities to date. He outlined the general perceptions of the current state of clinical research, some obstacles to achievement in this area and several recommendations for initiatives for us to consider. He was encouraged by the high level of interest by academic leaders in patient-oriented research. He also presented an interesting list of special research opportunities; a new classification of clinical research; and an impressive list of new formal training programs that have been developed at the universities for clinical research.

Dr. Shulman will be making another report on his activities as emissary in early July at the first meeting of the NIH Director's Panel on Clinical Research which I have recently organized.

GENE THERAPY

I read several reports regarding a study that the NIH is undertaking on the status of gene therapy. I personally have been impressed with the pace of this promising area of research, especially as it related to cystic fibrosis.

Question. Can you highlight for the Committee what outcome you expect from the review of the basic research and the advisory committee to evaluate the clinical trials?

Answer. Despite considerable scientific hurdles, we have come a long way towards exploiting the remarkable potential of gene-based therapy. We know a great deal about the genetic contribution to the pathophysiology of inherited and acquired diseases. Many of the genes that might be useful in the treatment of a wide variety of inherited and acquired illnesses have been isolated. Several gene delivery systems have been shown to transfer genes stably into target cells that survive in a patient. And the public has now largely come to accept gene transfer into somatic cells as ethically justifiable and medically promising. Since 1988, more than 100 gene-based therapies have been approved by the NIH Recombinant DNA Advisory Committee, including approximately eight for cystic fibrosis.

The NIH has supported these developments with enthusiasm and has made gene-based therapy part of a long-standing commitment to understand disease at the genetic and molecular level. Nearly all the Institutes and Centers have initiatives in the area of gene therapy, with an aggregated cost of nearly $200 million per year. NIH is pleased that the industrial sector also sees great promise in this area.

Despite the growing support for gene therapy, however, this area remains at a very early stage of development. Although there have been several reports of gene transfer and expression, there is still little or no evidence of therapeutic benefit in patients. Furthermore, it is not clear whether the NIH is investing in the most appropriate approaches with respect to choice of disease target, recipient cells, or delivery systems.

Therefore, I have assembled a panel of outstanding scientists to review the entire gene therapy research enterprise, both the clinical studies and the more basic research that underlies these studies. In particular, I have asked the panel to survey the investment that the individual Institutes and Centers at the NIH have made, and propose to make, in the various disciplines that influence gene therapy; to listen to scientists from academic, government, and industrial laboratories who are leading the development of gene therapy; and to consider the NIH-supported research programs in the context of investments being made by others, including the biotechnology industry.

Once the panel has gathered the necessary information, it will make recommendations that are expected to guide NIH in its programmatic and budgetary planning. The NIH will obtain advice, for example, on how funds should be distributed among the research areas that affect gene therapy, such as the development of gene delivery systems, the regulation of gene expression, animal models of diseases, and others; whether we are placing the appropriate emphasis on each of the many diseases and organs that have been considered as potential targets for gene therapy; what mechanisms of funding would be most effective for NIH-sponsored research efforts; and how we should respond to a variety of policy issues, such as the impact of gene therapy patents and licenses and the need for public education about the science and ethics of gene therapy.

Question. In addition, can you provide the Committee with the list of the individuals who are serving on the advisory committee?

Answer. I have selected as members of the panel scientists with expertise in areas that are critical to the development of gene therapy, such as virology, gene expression, and clinical genetics. I have deliberately not selected scientists who are most likely to benefit immediately from the recommendations the panel might make. The panel consists of the following members:

Stuart H. Orkin, M.D., Co-chair
Howard Hughes Medical Institute
Harvard Medical School

Arno G. Motulsky, M.D., Co-chair
University of Washington

Richard Axel, M.D.
Howard Hughes Medical Institute
Columbia University

David Botstein, Ph.D.
Stanford University

John M. Coffin, Ph.D.
Tufts University School of Medicine

Pamela B. Davis, M.D., Ph.D.
Case Western Reserve University
School of Medicine

Eric R. Fearon, M.D., Ph.D.
Yale University

Uta Francke, M.D.
Howard Hughes Medical Institute
Stanford University Medical Center

Haig M. Kazazian, Jr., M.D.
University of Pennsylvania
School of Medicine

Thomas J. Kelly, M.D., Ph.D.
Johns Hopkins University
School of Medicine

Robert J. Lefkowitz, M.D.
Howard Hughes Medical Institute
Duke University

Bernard Moss, M.D.
National Institute of Allergy and Infectious Diseases
National Institutes of Health

Thomas A. Waldmann, M.D.
National Cancer Institute
National Institutes of Health

Huda Y. Zoghbi, M.D.
Baylor College of Medicine

MENTAL ILLNESS

As you may recall, in Fiscal Year 1991, this subcommittee requested NIMH to contract with the Institute of Medicine to assess what needs to be done to prevent mental illness. The Institute of Medicine (IOM) has now issued its report, "Reducing Risks for Mental Disorders: Frontiers for Preventative Intervention and Research", and found two areas to be of prime importance.

Dr. Cowdry, to implement the key recommendations of the IOM report, this subcommittee recently heard from a coalition of 14 national organizations asking that NIMH seriously consider a small increase in the B/Start program to train a cadre of mental disorder prevention researchers and asking NIMH to take a larger role in the coordination of federal prevention research that now exists across at least 23 agencies.

SHARED RESOURCES

Question. Explain how NCRR-supported shared research resources "leverage" other NIH-supported research dollars.

Answer. Through several different programs, the National Center for Research Resources provides shared research resource facilities which are staffed with scientific expertise to help more than 10,000 investigators carry out their clinical, animal-based or technology-based research. Other shared resource programs provide sophisticated instrumentation, animal models - with specific modifications of their genome, as well as an array of other research-related biomaterials provided through well-established networks. The scientists using those resources are funded, usually through an investigator-initiated research project grant (R01), by the other components of the National Institutes of Health.

An economy-of-scale is attained through this approach; it also maximizes the utility of a resource, relative to its cost, and accelerates discovery. I can provide specific examples of how NCRR "leverages" the several types of resources it provides to investigators. For example, in FY 1994, NCRR made 45 shared instrument grant awards, totalling $9.0 million, with an average award of $200,000; each award was to support an average of 14.3 scientists. Therefore, if one were to provide each of those investigators that same scientific equipment, the total cost would have been $128.7 million. The total savings would be about $120 million. Even if the equipment were purchased for only four investigators, the savings would have been about $21 million.

The network of General Clinical Research Centers supported about 7,000 investigators in FY 1994 at a cost of $136.6 million.

Conservatively, the GCRCs save one-third to one-half of the patient-research based costs for clinical research at those inpatient and outpatient facilities. In addition to cost leveraging, the paramedical personnel--research nurses, core laboratory technicians--facilitate research for both the research participants and investigators; the cost savings for that aspect of GCRCs are immeasurable.

Considerable "leveraging" of research costs accrue across our Biotechnology Resource Centers as well. Several of those centers would never exist for a single or even a dozen scientists--for example, the synchrotron resources for high energy X-ray exploration of protein, viral or DNA structural abnormalities which cause disease. Other types of these centers would cost three times as much if they were not shared among a number of investigators. Overall, we estimate that the biotechnology resource centers would cost over $3 billion if funded as individual rather than shared facilities. In addition, the expertise provided to aid researchers in the use of the technologies is invaluable.

Another example of "leveraging" research costs is the National Cell Culture Center. This center provides large-scale cell culture and monoclonal antibodies to researchers. The monoclonal antibodies would cost about 42 times as much if they had to be purchased from commercial vendors. If researchers had to set up their own culture laboratories to produce large-scale cell cultures, it would cost even more.

Question. Describe what NCRR is doing using bioengineering technologies to explore areas of disease prevention and control.

Answer. NCRR has launched a new effort to stimulate research and development of novel, cost-effective bioengineering approaches to the prevention, treatment or rehabilitation of disease or disabling conditions. Initial investments are in three areas: micro-sensors, physiological monitoring and drug delivery systems. Emphasis is on innovation, sound scientific engineering and medical rationale and must be assessed to generate reductions in health care costs. The potential benefit of this research will lead to both improved health and reduction in health care costs, especially among the aged and the disabled.

Question. How much of the NCRR budget is devoted to shared research resources?

Answer. Approximately 80 percent of the NCRR budget is devoted to support of shared research resources, in such areas as clinical research, biomedical research technology, comparative medicine, and shared instrumentation.

Question. Why do we make such a large investment in these resources as opposed to individual research projects?

Answer. The investment in these resources represents only a small part (2.5 percent) of the entire NIH budget. The resources primarily serve scientists supported with NIH-funded investigator-initiated research project grants. In fact, if "leveraging" through the several NCRR programs did not exist, the average cost of grants awards to individual investigators would be substantially higher and many fewer awards would be made. In some cases, investigators could not be supported at all since one could not rationalize providing a single investigator or even a single institution support for an expensive, sophisticated biomedical technology resource such as a synchrotron for high energy x-ray studies. The array of resources provides access to specialized research facilities, instrumentation, animal models, and biomaterials to thousands of investigators to enhance and facilitate their research. In fact, the research resource needs of the biomedical research community must be continually and systematically addressed to identify those research tools and resources that will facilitate and advance their research to solve the riddles of human disease.

SCHOOL HEALTH EDUCATION

Question. Since so many of the lifestyle variables adversely affecting many types of cancers have their beginnings early in life, what activities at the National Cancer Institute are being devoted to comprehensive school health education?

Answer. There are currently eleven school health related projects funded by the National Cancer Institute. While none of the projects address all aspects of comprehensive school health education, all the projects contribute to at least one element of comprehensive school health. For example, the American Stop Smoking Intervention Trial (ASSIST) has as one of its major aims the proliferation of smoke-free schools and the broad adoption of tobacco use prevention curricula in the schools. Another project that focuses on smoking prevention in the schools targets elementary school children in grades 4, 5, and 6 and provides them with smoking prevention curriculum materials which includes resistance skills training and an array of general life skills. A third project, which addresses the relationship of sun overexposure early in life and the development of skin cancer later in life, is studying changes in knowledge, attitudes and behaviors as a result of skin cancer prevention program for infants and young children. All eleven studies focus on adolescents, with ten of the eleven studies focusing on intervening among youth in schools to improve a variety of health behaviors. The behaviors covered include tobacco use, diet and ultraviolet radiation protection. Age groups include youth in elementary school, middle/junior high school and high school and includes populations of African Americans, Hispanics, Native Americans and whites.

Lastly, the national 5 A Day program, designed to encourage Americans to eat five or more servings of fruit and vegetables every day, began in 1992. This program is a joint project of the NCI and the Produce for Better Health Foundation (PBHF) and is the largest public/private enterprise ever undertaken by the NCI. The national 5 A Day program encourages a low-fat, high-fiber diet and is being implemented and evaluated in schools, workplaces, grocery stores and other community settings.

TRANSLATIONAL RESEARCH

Question. Can you please summarize for me and the members of the Committee what steps the National Cancer Institute is undertaking to ensure that translational research is given the priority that it should be in the NCI's research portfolio. The recent report of the National Cancer Advisory Board, "Cancer At A Crossroads", certainly gave the issue of translational research prominence; and I want to be sure that we are doing all that we can to ensure the rapaid translation of research from the bench to patients.

Answer. Translational research is the bi-directional exchange of information between the laboratory and the clinic. Translating basic research discoveries into prevention strategies and new cancer treatments is a high priority for NCI.

A primary example of translational research is seen in leukemia research which has provided a template for translation of key breakthroughs in basic research to applications in clinical cancer research. Fundamental concepts regarding oncogenes and chromosomal translocation, growth factors, dose-intensive chemotherapy, bone marrow transplantation, supportive therapies such as infection management and blood product support and stem cell biology have all been pioneered in leukemia. Many leukemia are now curable as a result of these landmark studies. In turn, the knowledge generated by basic and clinical leukemia research is continuously being extrapolated to inform our basic understanding and clinical approaches to solid malignancies. Thus, support of leukemia research is, in effect, the support of all disciplines of cancer research.

I might add that leukemia research has also provided a firm foundation for AIDS research. Several leukemia found in birds, mice and cats, are caused by retroviruses that bear similarities to HIV. Both AIDS and the lymphoproliferative malignancies (myeloma, lymphoma, lymphoid leukemia) represent aberrations in normal immune development. Both types of disorders are characterized by maturation arrest of certain subsets of normal lymphoid precursors. The AIDS drug screen uses an HIV-infected T cell leukemia cell line to screen synthetic compounds and natural products for their efficacy in blocking HIV replication.

A principal mechanism of our translational program is the SPORE (Specialized Programs of Research Excellence) program. Multidisciplinary teams at the SPORES work to rapidly develop new technologies for breast, prostate, lung, gastrointestinal and other cancers. The SPORE program was initiated to address the need to apply scientific findings quickly to humans. This initiative encourages research which is likely to have immediate impact on reducing the incidence and mortality of cancers related to particular organ sites. Basic, clinical, and prevention and control scientists in SPOREs are expected to think and work together in moving their existing bases of knowledge into applied research settings involving patients and populations. Currently, there are nine SPOREs for breast (4), prostate (2), lung (2), and gastrointestinal (colorectal and pancreatic) cancers (1). Together, these cancer sites represent the most common cancers--projected to occur in 731,000 Americans, representing about 61 percent of cancer incidence in 1994--and the leading causes of cancer deaths in the United States--319,200 people, and 59 percent of all cancer deaths. Addition of new SPOREs will permit networking among multiple SPORE institutions to test innovative ideas in pilot treatment and prevention trials. As translational research efforts become widespread, the SPORE program may become a blueprint for this type of research effort.

Translational research supported by the NCI also explores the ideas of a single investigator within a single institution. In this setting, the clinician scientist conducts a pilot clinical trial which forms the basis for the larger scale clinical trials. The new grant programs for clinician scientists--expanded versions of the traditional R01, R29, R03 and R21 mechanisms--aim at spanning all disciplines of clinical investigation from epidemiology and environmental/occupational carcinogenesis to screening, diagnosis, treatment and prevention of cancer. The new programs have a special goal to promote investigator-initiated, exploratory clinical research with a particular focus on new investigators.

NCI seeks to foster this exploratory and pilot clinical research to augment its large clinical trials program currently conducted throughout the nation by the various Clinical Cooperative Groups and the Community Clinical Oncology Program (CCOP) and the Minority CCOPs. These latter programs are the mechanisms for support of larger confirmatory studies that place a treatment modality in the context of other treatment options and seek to experimentally prove the presence or absence of benefit from the new treatment. Large clinical trials allow a comprehensive analysis of new therapies before their adoption as routine care. Through clinical trials, we develop the treatment strategies for the general public that are safe and effective. Notable among these efforts is the CCOP which builds partnerships and referral networks among community based institutions in order to support clinical trials of new cancer therapies and prevention concepts. Significant uses of the CCOP network include the current studies of Tamoxifen and Proscar. Tamoxifen has been used an a adjuvant treatment after surgery for breast cancer and now as a preventive agent in a large clinical trial. Proscar, an agent used to alleviate benign prostatic hypertrophy, is now in a prostate cancer prevention trial.

Clearly the ultimate goal of our work is to bring research results to practice. Two of our most important tools are the Cancer Information Service (CIS) and the Physician's Data Query (PDQ) Information System:

The CIS is the focal point for the government to communicate to the nation about cancer, bringing state of the art information on cancer prevention and treatment to patients, the public, and health professionals. The CIS, a nationally available telephone information service (1-800-4CANCER), supports community outreach efforts to underserved audiences. The outreach efforts facilitate state and regional intermediaries in reaching underserved audiences with NCI's cancer control and patient education messages and materials. The CIS focusses on NCI programs of early detection of breast and cervical cancer, tobacco control, nutrition, cancer pain, survivorship, and clinical trial recruitment. Key intermediaries and partners include cancer centers, leadership initiatives, ASSIST, 5 A Day, the American Cancer Society, and the Centers for Disease Control and Prevention.

NCI has a direct mandate from Congress to disseminate information relating to cancer research, diagnosis, prevention, and treatment to physicians and the general public. One of the major programs in place to accomplish this is the Physician Data Query or the PDQ. The PDQ was developed in 1984 and is NCI's most up-to-date source of cancer information. The types of information available are summaries on treatment, supportive care, screening and prevention, and investigational drugs; summaries of active and closed clinical trials conducted throughout the world; and directories of physicians and organizations active in cancer treatment and/or screening. PDQ information is available through a number of sources. These include CancerNet, CancerFax, CD-ROM products, various gopher services on the Internet, BITNIS (Batch Internet - National Library of Medicine Intercommunication Service) and EuroCode (the EORTC's computer network). Online usage of PDQ services in 1994 totaled 17,000 hours. In addition, more than 600 subscriptions to CD-ROM products containing the PDQ database were sold in 1994.

NUTRITIONAL VARIABLES IN PROSTATE CANCER

Question. With so much concern being given to cancer of the prostate morbidity and mortality, and the idea that nutrition may impact on its progress, what efforts are being carried out at the National Cancer Institute to test the possible influence of nutritional variables on cancer of the prostate?

Answer. The National Cancer Institute (NCI), as the lead Institute of the National Institutes of Health (NIH) responsible for prostate cancer research, supports and coordinates a multidisciplinary research agenda to address fundamental issues in cancer etiology, epidemiology, tumor biology, vaccine development, prevention, early detection and diagnosis, and treatment. To achieve the goals of eradication of death and suffering from prostate cancer, the NCI cooperates and collaborates with the National Institute of Diabetes, Digestive and Kidney Diseases, the National Institute of Aging, the National Center for Human Genome Research, the National Institute of Child Health and Human Development, the National Institute of Environmental Health Sciences and other sister agencies of government.

The prostate cancer research agenda is informed by ongoing collaborations among NCI and the categorical NIH institutes, as well as close interactions with the American Urological Association, the American Cancer Society and the Centers for Disease Control and Prevention. To this end, the NCI is undertaking studies of prostate cancer risk factors including dietary factors, hormones, and environmental exposures. In addition, a prospective study of diet and cancer including prostate cancer is being undertaken in cooperation with the American Association of Retired Persons (AARP).

Finasteride (Proscar), the agent used to alleviate benign prostatic hypertrophy, is now in a prostate cancer prevention clinical trial. (A similar primary prevention trial is underway using Tamoxifen as a potential breast cancer preventive agent.).

The role of diet in hormonal carcinogenesis is a subject of intense interest. Recent studies of large cohorts of men by teams of NCI-supported scientists have linked dietary fat to prostate cancer risk. In the Health Professionals Follow-up Study, a cohort of over 51,000 men ages 40-75, the risk for developing advanced prostate cancer (but not preneoplastic lesions or carcinoma in situ) was related directly to the consumption of animal fats, in particular alpha-linolenic acid (a polyunsaturated fatty acid associated with red meat and butter). This relationship has been substantiated in the Physicians' Health Study, a cohort of almost 15,000 male physicians, where high blood levels of alpha-linolenic acid conferred a 2-3-fold increased risk of developing prostate cancer and the high consumption of red meat (five times weekly vs. less than once weekly) independently conferred a 2.5-fold increased risk. This link between certain types of dietary fats and prostate carcinogenesis may be mediated through prostaglandins, for which polyunsaturated fatty acids serve as biochemical precursors. The continuing dissection of such relationships between dietary components and the promotion or suppression of prostate carcinogenesis remains an exceedingly important focus of NCI's research directions.

The jointly developed Workshop on Dietary Phytoestrogens: Cancer Cause or Prevention (NCI, NIEHS) held in September 1994 to explore the complex issues surrounding phytoestrogens and their estrogenic activities has provided another opportunity to examine the relationship of diet and cancer. The workshop served as a cornerstone for identifying existing and emerging scientific opportunities, and will form the basis for the development of Program Announcements (PA) and Requests for Applications for innovative research addressing dietary phytoestrogens. One particular outgrowth of the workshop is the proposed issuance in 1996 of a PA, "Studies on Phytoestrogen Interaction with Cancer," to stimulate research into the complex non-hormonal (as well as hormonal) mechanisms by which certain phytoestrogens might suppress cancer, for instance through antioxidant activity or tyrosine kinase inhibition (as in the case of the soy product genistein). The PA would foster interest in multiple aspects of preclinical development of phytoestrogens as anti-cancer agents -- synthesis, pharmacology and toxicology, mechanisms of action, and chemoprevention in animal models.

Studies of the long progression of carcinogenesis have given rise to nutritional, pharmacologic, chemopreventive, and endocrinologic (hormonal) agents to inhibit, delay, or reverse the process. Micronutrients such as vitamin A and vitamin D as well as plant phenolics, such as found in green tea, and genistein, found in soy products, have in many cases a positive effect on vulnerable cells and present promising avenues for clinical testing. Genistein (in the form of soy products) is currently in pilot prevention clinical testing in patients at high risk for breast and prostate tumors (but without overt cancers), with accompanying molecular markers and clinical pharmacologic parameters. Developmental preclinical and clinical studies are needed to bring these promising compounds into the realm of prevention clinical trials.

The retinoids, related to vitamin A, have suppressed tumor growth in many types of cancer including skin, trachea, lung and mouth. Anti-inflammatory agents such as aspirin are also being studied. Some agents detoxify, some inhibit cell signaling. Some stimulate the immune system. It is vitally important to continue to test these approaches in clinical trials.

The results of a recent Finnish study of alpha tocopherol and beta carotene have shown no decrease in lung cancer, but an 18% decrease in prostate cancer. NCI is pursuing studies of vitamin E (alpha tocopherol) and beta carotene on this basis.

Various studies have revealed disparate prostate cancer incidence between African American and white populations. One of these studies is the Triana/Tennessee Valley Authority study which has involved sampling of fish in the Tennessee River for pesticides and tumors. Another study is a case-control study of high-prevalence cancers in African American men which has focused on diet, alcohol and tobacco use, as well as occupation and medical conditions.

NCI epidemiologists have been collecting data for the past several years on individuals with four types of tumors - prostate, esophageal, pancreas and multiple myeloma- that occur at a higher incidence in African Americans than in whites. An important aspect of this project is to explore possible dietary explanations, and as a first step, representative samples of these populations have been compared. Contrary to popular belief, intake of both total and saturated fat was slightly lower among African Americans than whites. In addition, African Americans were more frequent consumers of fruits and vegetables that are considered to be protective against cancer. The data, however, suggested several possible alternative dietary explanations for the racial disparities in cancer risks, including differences in cooking practices (e.g., high temperature cooking of meats) and consumption of preserved meats by African Americans. During the coming year, researchers will attempt to clarify the reasons for the disparities noted.

As these varied initiatives demonstrate, NCI has been working toward the prevention of prostate cancer in many ways and has been exploring its relationship to nutrition and diet. Moreover, the oncology communities of essentially every NCI Cancer Center are intensifying their research portfolios to address the important challenges of prostate cancer and to change the impact that prostate cancer presently has on the duration, productivity and quality of life for all men who are affected by this disease.

EYE DISEASE PREVALENCE

Question. Are there any statistics on the prevalence of eye disease that are major public health problems?

Answer. It is estimated that over 12 million Americans have some degree of irreversible vision impairment, and more than a million of them are blind. In 1990, more than 8.5 million people aged 55 and older had cataracts, and currently over 1.5 million cataract surgeries are performed each year. Approximately 2 million people have glaucoma and we estimate that another 1 million undiagnosed people have this progressively blinding disease. Approximately 1.7 million older Americans have decreased vision from age-related macular degeneration and over 100,000 are blind. And finally, diabetic retinopathy--the leading cause of blindness for Americans under the age of 60--will occur in about half of the nation's 14 million diabetics during their lifetime. Diabetic retinopathy causes an estimated 24,000 people to lose their vision each year.

IMPACT OF EYE-RELATED PATENTS

Dr. Kupfer, I understand that the National Eye Institute (NEI) has conducted a thorough analysis of U.S. eye-related patents to determine the impact that NEI research has had on the development of new treatments, cures, and devices.

Question. Could you please explain the findings of this study?

Answer. We have identified over 8,000 patents issued since 1975 that can be considered eye-related. This includes patents dealing with eyeglasses, contact lenses, intraocular lenses, medical and surgical treatments, diagnostic aides, and other related items. The front page of each patent contains summary information and references to prior art, earlier patents and published research papers. We reviewed these cited research publications to determine whether acknowledgment of research support was identified, and if so, the specific funding source. The NEI was named in 25 percent of the support acknowledgements, and was named more often than any other single source of support. Other NIH institutes together comprised an additional 25 percent of the support acknowledgements.

Question. Could you please cite some examples of how NEI intramural research findings have made some impact on industry?

Answer. A recent clinical trial was undertaken by private industry, to follow up on the NEI intramural program's clinical finding that a new drug-releasing device was effective in treating cytomegalovirus (CMV) retinitis, a sight threatening disease that affects one in four people with AIDS. The clinical trial conducted by private industry compared administering the anti-viral drug ganciclovir intravenously with the ganciclovir-releasing implant, in terms of CMV retinitis progression. The implant was shown to increase the average time to progression in the treated eye from 72 days to 194 days. With these results, it is expected that standard treatment will (after FDA approval of the device) entail systemic therapy plus the implant. However, because the eye can now be protected locally, this opens the door for oral administration of effective therapies for GI and other systemic complications.

Also, earlier research conducted by the NEI intramural program found that the anti-viral drug, foscarnet, was effective in treating CMV retinitis. The FDA considered this study pivotal in deciding to approve the drug for use.

"SUDDEN BLINDNESS"

Question. Dr. Kupfer, I understand that one of NEI's recent clinical trials has proven that the use of surgery for treating "sudden blindness" in elderly Americans is not effective. What is the potential cost savings of not performing this operation?

Answer. The NEI recently issued a clinical alert about results from the Ischemic Optic Neuropathy Decompression Trial (IONDT). The IONDT is a randomized, controlled clinical trial being conducted at 25 clinical centers nationwide. The IONDT compared the safety and efficacy of optic nerve decompression surgery versus no surgery in patients with non-arteritic ischemic optic neuropathy (NAION). NAION is the most common cause of sudden visual loss in older persons. Results from this study indicate that there was no benefit from the surgery, and that the surgery may be harmful. Based on these results, the study concludes that optic nerve decompression surgery is not an appropriate treatment for NAION. Estimates of the annual potential savings that will be realized by not performing the operation range between $30 and $60 million.

COST SAVINGS

Question. Are there any other recent examples of cost savings from NEI research?

Answer. Research supported by the NEI has yielded significant savings over the last several years. NEI-supported research has demonstrated that currently recommended treatments for diabetic retinopathy are over 95 percent effective in preventing blindness. It has been estimated that these treatments save $1.2 - 1.6 billion per year. The Cryotherapy for Retinopathy of Prematurity Study demonstrated the effectiveness of cryotherapy in halting the progression of the abnormal proliferation of blood vessels in the backs of the eyes of very premature infants. It is estimated this treatment generates $20 million in savings each year. The Optic Neuritis Treatment Trial found that oral corticosteroids were not effective in treating optic neuritis, an acute debilitating inflammation of the optic nerve that primarily affects women. Scientists estimated that the annual savings could be approximately $26 million in treatment costs. The Collaborative Corneal Transplantation Study showed that donor-recipient tissue matching was not effective in reducing transplant rejection. However, ABO blood group matching was effective in this regard. Had the more costly donor recipient tissue typing become the standard practice, the cost of corneal transplantation would have risen by about $1,000 per case.

STRATEGIC PLANNING PROCESS

Question. Can you describe the NEI strategic planning process and its impact on vision research?

Answer. Since the early 1970's, the NEI, in conjunction with its senior advisory body, the National Advisory Eye Council (NAEC), has engaged in a comprehensive, long-range program planning process for vision research. This process, which has resulted in a series of national vision research plans that have been published and widely disseminated to the vision research community, has been used as a means of evaluating progress toward achievement of program goals and identifying and addressing the major needs and opportunities in vision research. As a part of the process, panels of scientific experts representing each of NEI's major programs are assembled under the auspices of the NAEC's Vision Research Program Planning Subcommittee to: define the scope and impact of important research areas; update program goals and objectives; review current research support and recent scientific advances; and determine the key research questions or priorities to be addressed. Each panel submits a report to the Council, which reviews and approves the reports. The Council issues a consolidated report at roughly five-year intervals. We believe the impact of such a comprehensive planning process is that it helps determine the course of scientific inquiry, and hastens the rate at which it occurs.

TUBERCULOSIS

Dr. Schambra, first I want to commend the Fogarty International Center's commitment to mobilize international efforts to combat global health threats. In particular, I note the success that your AIDS International Training and Research program has had in just a few short years. As you know, tuberculosis is the leading infectious killer of adults. Almost 3 million people each year die of tuberculosis and 30 percent of TB cases here in the United States are a result of foreign born infections.

Question. What do you foresee as the role of The Fogarty Center in combating this re-emerging international health threat?

Answer. International research and training is key to both U.S. and global efforts to reverse this pandemic. Special efforts should be made to link U.S. researchers with counterparts in developing nations. TB leads to one-quarter of all deaths in developing nations, and the risks are increasing due to the interaction of HIV infection and tuberculosis. HIV-infected individuals are at significant risks of developing clinical tuberculosis and spreading TB.

Three years ago the Fogarty International Center, in partnership with the National Institute of Allergy and Infectious Disease and the Centers for Disease Control and Prevention, among others, organized the First World Congress on Tuberculosis. The Congress was attended by over 900 health professionals from about 50 countries and helped to mobilize global efforts to combat tuberculosis.

The issue of TB related to HIV infection continues to be an important part of the FIC's overall AIDS program. For example, investigators supported through our program have demonstrated the effectiveness of the drug Isoniazid in preventing tuberculosis and clinical AIDS among HIV-infected persons. In the United States 5-10 percent of HIV-infected individuals may develop active tuberculosis within the first year. The'finding potentially will improve the clinical management of HIV infections and reduce costs related to TB management and care.

Institutions and individuals supported under our AIDS programs are, in fact, among the most competent in the world related to tuberculosis. The strategy of the Fogarty Center, in combating tuberculosis and other emerging and re-emerging international health threats, is to continue to support research through the AIDS International Training and Research Program (AITRP) and other FIC programs. These programs provide essential epidemiologic and related public health skills necessary to identify and to treat TB in HIV-infected individuals. New research initiatives are needed because the epidemiology, natural history, and pathogenesis of tuberculosis are changing, particularly as a consequence of co-infection with HIV; and the emergence of multiple drug resistance of M-tuberculosis has heightened the crisis.

Question. I note that you cite that a major future goal of your AIDS International Training and Research Program is to include TB and other opportunistic infections related to the HIV infection in your programs. Given the fact that there is a global tuberculosis epidemic and that HIV infected persons are highly susceptible to TB, what would it take for the Fogarty Center to expand its efforts in the international TB control and how would you propose to go about it?

Answer. An essential requirement in overcoming the TB epidemic is to provide a broad based opportunity for health professionals in countries most impacted by TB to receive the latest research and public health training to allow them to better respond to this health emergency in collaboration with U.S. investigators.

The Fogarty Center has already taken steps to expand its efforts related to tuberculosis within available resources: We have asked the directors of our AIDS training and research programs to propose supplemental projects to deal with the threats posed by emerging/reemerging diseases including tuberculosis. If additional funds become available, the FIC will establish a TB initiative within each of its AIDS International Training and Research Progr @ which would provide short and long-term training in the U.S. for foreign investigators working on TB, and will also support advanced incountry research related to tuberculosis.

Question. As you are aware, the International Union Against Tuberculosis and Lung Disease, which is represented in the United States by the American Lung Association, has developed an extremely effective program for tuberculosis control which has resulted in a cure rate of over 80 percent. This is just an example of the fact that if the resources were available, working with groups like the International Union and the World Health Organization, we could better implement one of the most cost effective health interventions available today. In your judgment, what should the Fogarty International Center and other elements of the public health service be doing to combat this re-emerging global health threat?

Answer. The Fogarty International Center has recently met with representatives of the International Union Against Tuberculosis and Lung Disease to discuss specific areas of cooperation. In follow-up to our meeting, we encouraged the directors of our AIDS Training and Research Programs to propose supplemental projects to combat the global TB epidemic in collaboration with the International Union. The National Institute of Allergy and Infectious Diseases is also supporting a major international research effort to better combat the global health threat posed by tuberculosis, an effort which also is supported through the FIC AIDS International Training and Research Programs.

The FIC is encouraged by the field research led by WHO and the International Union Against Tuberculosis and Lung Disease, which have dramatically increased cure rates. However, the effectiveness of management and control programs depends on biomedical research advances in the following areas:

- improved diagnostic tests, especially detection techniques applicable in field conditions;
- less-expensive and shorter-acting chemotherapeutic drugs and research on methods to ensure compliance to extended treatment regimens;
- a more effective, longer-acting vaccine.

With additional funds, the FIC would establish the necessary training and long-term research relationships with each of the countries where the International Union Against Tuberculosis and Lung Disease has chosen to focus its own efforts to combat the global TB epidemic, thus providing a mutual reinforcement of each others' efforts.

NATIONAL CENTER FOR BIOTECHNOLOGY INFORMATION

Question. What impact does the National Center for Biotechnology Information have on the competitiveness of the U.S. biotechnology industry?

Answer. The U.S. maintains the international lead in biotechnology and a key factor in its preeminence has been the industry's access to molecular sequence data and analytical software. Molecular sequence data has become a critical resource in the competitive process of gene discovery. The importance of these databases can be measured by the hundreds of accesses that are made to them every day by leading pharmaceutical and biotechnology companies. NCBI has been committed to ensuring that these companies as well as academic laboratories receive full return on the U.S. investment in basic biological research by creating and maintaining the most complete, accurate, and up-to-date repository of sequence information in the world. GenBank contains over 280 million base pairs of data, is doubling in size every 20 months and has had over 50,000 different users access the data in the past year. Every day over 1,500 accesses to the data are made by commercial users.

NCBI has made special efforts to address the needs of the commercial sector. Leading pharmaceutical and biotechnology companies have formed an Industrial Users Group to exchange open communication regarding the future direction of NCBI databases and software development. Over the course of the past year NCBI has worked with industry representatives to facilitate their network access by accommodating their special needs for network security. Data encryption is now offered to ensure confidentiality of queries and responses. U.S. software companies are developing products based on NCBI's software libraries that are being tailored for the specific needs of the pharmaceutical and biotech sector. NCBI has also instituted a training program for postdoctoral level biologists. After a two or three year period they will qualify them for senior positions in the biotechnology industry in designing and developing information systems for genomic analysis.

Because the science behind biotechnology is evolving so rapidly, NCBI's success depends on coupling inhouse leading edge research in biology with a dynamic information resource. NCBI not only has the world's leading group in computational sequence analysis, but has effectively transferred analytical tools from the test stage into practical applications. The BLAST sequence searching algorithm was developed by the intramural research group and is now the most widely used tool for fast and accurate sequence searching. Other tools under development such as motif searching and searching based on three-dimensional protein structures have direct and immediate application for drug discovery and development.

The NCBI model of basic research and database service has proved so successful that Europe and Japan are attempting to establish their own centers. The EC and Japan have acknowledged that NCBI provides American researchers with a competitive edge and that they feel compelled to organize their own focal points for bioinformatics research and service. Last year the EC in conjunction with the Wellcome Trust and the European Molecular Biology Laboratory set up the European Bioinformatics Institute in Cambridge, UK. And recently, Japan has announced plans for a similar center.

ENVIRONMENTAL TOXINS

We are aware of the fact that the Institute is scheduling a workshop on the link between environmental toxins and Parkinson's.

Question. What implications does the exploration of this Parkinson's-toxic link have for other neurological disorders?

Answer. Research showing a link between Parkinson's Disease and exposure to toxic compounds represents an important new scientific paradigm. Experimental evidence seems to support the concept that there are certain individuals in the population who are genetically predisposed to this condition. Exposure to certain environmental agents seems to trigger the onset of clinical disease in these susceptible individuals. Alzheimer's is another neurodegenerative disease that is suspected of having a similar relationship. Both have genetic factors associated with them that do not entirely account for the etiology of the diseases. Both have exposures that are associated with an increased risk of developing the disease such as to heavy metal and pesticide.

Question. What plans does the Institute have to pursue this area further?

Answer. Based on recommendations from the workshop, the NIEHS plans to solicit research grants exploring the role of the environment in Parkinson's Disease. In addition, plans are underway to cofund with the National Institute on Aging a study that will include exploration of a possible link between environmental exposure and early onset Alzheimer's Disease.

Question. Is NIEHS adequately funded to continue to pursue it?

Answer. Research on these important problems will be maintained at their current levels. If additional funds are available, new studies could be initiated which could hasten our understanding of the environmental component of these diseases.

PARKINSON'S DISEASE RESEARCH AT NIA

Question. What is the nature of the Parkinson's Disease Program at the NIA?

Answer. The National Institute of Neurological Disorders and Stroke is the lead institute at NIH for Parkinson's disease (PD) research. NIA's focus on PD research relates to the issue of how studies on PD can illuminate aspects of aging in the brain. PD is generally considered a neurological disorder of aged individuals. The main questions addressed in the basic science aspect of NIA's focus on PD are how does aging affect brain systems involved in PD and what is the mechanism that leads to increased vulnerability of neurons in these systems leading to the symptoms of PD. Clinical studies examine the relationship of PD to Alzheimer's disease (AD) because these are often comorbid conditions. Studies also look at the neural control of posture and movement which are affected in PD. Both basic and clinical studies also examine the potential role of various toxins in the etiology of PD as this relates to aging-associated neuronal vulnerability.

Question. For example, what was the $4.9 million spent on direct Parkinson's research in 1994 (also $4.7 million "related") used for?

Answer. Funds obligated within the category of "direct Parkinson's research" addressed research questions related to the types and optimal conditions for delivery of naturally occurring factors made by cells that will ameliorate or reverse the loss of neurons that is a part of the disease process. Efforts are also being made to better understand the biochemistry that underlies the loss of neurons. This includes the study of changes that occur with age in the areas of the brain that are known to control balance and gait. Clinical studies address how dementia, seen in both PD and AD, may be similar or different in various domains such as cognition, neuropathology, and neurochemistry. Examples of "related" research include many NIA-supported clinical studies which address the heterogeneous nature of the neurodegenerative and dementing diseases of the elderly, including studies of AD patients with motor symptoms as well as PD patients with dementia.

Question. What efforts are underway to coordinate research efforts on Parkinson's between NIA and other Institutes of the NIH?

Answer. NIA staff work closely with other NIH components to ensure that our respective research efforts complement each other. Beyond formal means for exchange of information at NIH, such as scientific workshops and conferences, many informal networks between NIH scientists help ensure a unified effort in working toward the common goals of eradicating disease and promoting health and independence.

NEUROFIBROMATOSIS GENE RESEARCH

Question. Dr. Collins, while at the University of Michigan before you came to the NIH to direct the Genome Center, you were the co-discoverer of the NF1 gene. Now that you are here at NIH as Director of the Human Genome Center, what NF-related gene research and therapy are you or your colleagues doing at NCHGR?

Answer. The Extramural Program of NCHGR is devoted to supporting the development of maps and sequences of the human genome and the genomes of several model organisms. This Program does not fund targeted research on specific genetic diseases, leaving that to the other Institutes and Centers at the NIH. However, the NCHGR Division of Intramural Research (DIR) continues to do research on neurofibromatosis type 1. Dr. Collins' laboratory continues to supply reagents (especially cloned portions of the NF1 gene) to a large number of laboratories studying this common condition. A collaboration with the American Red Cross is underway to research the regulation of the NF1 gene by the HTLV-1 retrovirus. Additionally, a collaboration with a private company to look at the possibility of improving DNA diagnostics for NF1 with DNA chip hybridization is being considered. Finally, Dr. Francis Collins continues to serve as a member of the Research Advisory Committee of the National Neurofibromatosis Foundation, which organizes scientific meetings on NF1 and NF2 approximately every six to nine months.

Question. And given the enormous potential in this area, what future plans do you have to develop and expand NF-related research funded by the Center for Human Genome Research?

Answer. NINDS has issued a program announcement on Neurogenetic Disorders of Infancy and Childhood, including neurofibromatosis. The Institute also expects to provide funding for a workshop in July of this year--the 13th in a series of successful workshops held under the auspices of the National Neurofibromatosis Foundation. Topics will include clinical aspects, molecular genetics, animal models, and therapeutic approaches. Such workshops are an excellent way to stimulate research.

PROGRESS ON DRUG ADDICTION

Question. Are we making any scientific progress on addiction to drugs like cocaine and heroin?

Answer. We are making significant scientific progress in the field of addiction in general, and cocaine and heroin in particular. We have now cloned the molecular receptor for virtually every drug of abuse. With this information scientists can move on to the cellular and genetic bases of addiction and to develop pharmacotherapies based on this basic science. As an analogy, you could think of these receptor sites as tumbler locks (as in a door lock or auto ignition switch), whose structures are now known to us. We must now find the neurochemical "keys" to fit these locks. We are making important progress in this search.

The neurobiology of addiction is being elucidated. In the area of heroin and other opiate addiction, we understand the site of action (the mu opiate receptor) quite well. This has enabled scientists to develop compounds which act in different ways at that site. NIDA has developed and brought to market two medications that operate at this site: LAAM, an alternative to methadone which is dosed less often and has less euphorogenic effects; and naltrexone, which pharmacologically blocks opiates from exerting their effect at this site. We are in Phase III testing of another product, buprenorphine, which has a ceiling effect (safer against overdose) and a milder withdrawal profile and should be useful for patients who need alternatives to methadone or LAAM.

The tools of molecular and cellular biology are offering exciting insights into the actions of opioid drugs, opening the possibility for identifying new therapeutic targets at the cellular level. We are now at the beginning stages of important research which is separating the major effects of opiate drugs into distinct systems in the brain. We are beginning to be able to separate the pain-killing effects (analgesia) from the effects of tolerance. This research holds promise that an entire new generation of medicines may be developed which could treat pain without the development of tolerance and/or dependence, and could potentially treat opiate addiction without abuse liability.

An effective strategy for treating addiction should prevent both craving and relapse. Progress is being made in this direction. For example it is known that learned associations are critical in the development of craving/relapse. It is well accepted that stimuli present in the environment when the drug is taken become conditioned to the drug experience. Thus an individual who has become drug-free may go back to the environment where the drug was taken and re-experience some of the aversive aspects of the drug (or develop a desire to take the drug). Studies in laboratory animals have shown that one of the regions of the brain critical to the development of associations is the amygdala and that lesions of the basolateral amygdala will prevent certain conditioned opiate withdrawal symptoms.

In the area of cocaine, we have recently cloned the dopamine transporter site where it is believed cocaine exerts much of its

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action. Cocaine binds to proteins called transporters, which control nerve signals by taking certain neurotransmitters, such as dopamine, norepinephrine and serotonin back into cells after they are released. Through molecular and cellular biology, we are, for the first time, beginning to understand differences in how endogenous neurotransmitters as well as drugs bind to these proteins. This progress offers the promise of exploring specific potential pharmacotherapeutic agents which may capitalize on these differences.

Additionally, molecular biology now is providing extremely powerful tools which enable scientists to study the role in addiction of various receptors and the brain systems in which they are located. For example scientists have long tried to identify the mechanisms associated with the cellular and behavioral consequences resulting when cocaine inhibits the reuptake of dopamine into cells. Very recently, scientists have "knocked" out one form of the receptor which binds dopamine (the D_1 receptor), showing that this receptor appears to be involved with some of the movement activities observed when cocaine is administered to animals. Such experiments offer the potential to identify how drugs exert their long- and short-term effects.

As one potential treatment strategy, we have been searching for compounds which block cocaine at that site but still allow the essential neurochemical dopamine to perform at that site. We, along with researchers at Johns Hopkins University, have just recently identified some compounds which by their chemical structure would appear to block cocaine without disruption to dopamine release and re-uptake. There is still a large amount of work to be done, however. We must know whether any candidate compound for development is strong enough and durable enough to endure in the brain, whether it can be administered and absorbed appropriately, whether it has acceptable toxicity, and whether it will perform as expected in human beings.

DRUG ABUSE AND AIDS

Question: Since a significant number of AIDS cases are a result of drug use, can you tell us what approaches NIDA is taking in AIDS research?

Answer. Drug abuse is now the second leading risk factor for acquiring HIV infection, through the sharing of contaminated drug injection equipment, through sex with injection drug users, and tragically, through perinatal transmission to the children of infected mothers. One third of the approximately 400,000 adult and adolescent AIDS cases in the US are drug-related, that is, among injection drug users (IDUs) or those who have sex with an IDU. In addition, over half (55%) of the nearly 6000 pediatric AIDS cases (<13 yrs old) are drug-related, that is, the offspring of a mother who is HIV infected as a result of her own or her sexual partner's drug use. Moreover, HIV infection is not limited to drug injectors and their sex partners. In poor inner city communities young smokers of crack cocaine, particularly women who have sex in exchange for money or drugs, are at high risk for HIV infection, exhibiting HIV prevalence rates as high as 30%. Clearly, the drug abuse links to the AIDS epidemic warrant a strong Federal research effort.

NIDA has responded to that challenge by building a multiple disciplinary program of research which comprehensively addresses the AIDS and drug abuse problem. The focus of the program has been to develop improved strategies to reduce drug-abuse related behaviors that are linked to the transmission of HIV. These strategies include drug abuse treatment and outreach strategies to drug abusers not in treatment. NIDA's program also includes epidemiologic studies of seroincidence, seroprevalence, and progression to disease among drug users in and out of treatment, their sexual partners, and their children; and studies of the effects of drugs of abuse on the immune system.

NIDA has expanded its research on ways to improve drug abuse treatment, as a means of reducing levels of HIV infection by reducing overall levels of drug use, particularly drug injecting. NIDA research has demonstrated that drug abusers in drug treatment are at lower risk for seroconversion than those not in treatment. One recent study found a sixfold difference in the rate of seroconversion between injection drug users in methadone maintenance treatment (3.5%) and those who stayed out of treatment (22%). NIDA will continue to support research to improve existing treatment approaches and to develop new pharmacologic and behavioral therapies to improve drug abuse treatment as an AIDS prevention strategy.

About 85% of chronic drug abusers, primarily regular users of cocaine and heroin, are not in drug treatment. Out-of-treatment drug abusers have higher rates of high risk behaviors, greater seroprevalence, and higher rates of seroincidence than in-treatment populations. Accordingly, NIDA has established large scale studies to reach drug abusers not currently in treatment. Through such community outreach studies, NIDA has assessed strategies to inform and counsel drug abusers about AIDS, to encourage them to seek treatment for their drug abusing behaviors, and to educate them on methods to reduce their risk for transmitting and contracting HIV. NIDA also conducts research on other community-based strategies to reduce HIV infection, such as needle exchange programs. Significantly, these studies have shown that even relatively small amounts of education and counseling can help many drug users modify their HIV risk behaviors, even without achieving total abstinence from drugs. NIDA will continue to conduct research to improve educational and behavioral strategies to reduce HIV transmission among drug abusers, and has initiated new initiatives focussing on gender and cultural issues, drug-using networks, and pediatric AIDS.

Drug abuse treatment and prevention programs that change high risk behaviors can most effectively reduce the drug abuse-related transmission of HIV. Consequently, NIDA has and plans to continue to develop and enhance effective methods for treating and preventing drug abuse-related high risk behaviors. The continuation and strengthening of this research is central to the Nation's hopes for developing effective HIV/AIDS prevention strategies.

MARIJUANA USE

Question: It appears that marijuana use is on the rise. What is NIDA doing to address this alarming increase?

Answer. NIDA supports a substantial body of ongoing research devoted to marijuana. In addition, in its role as a public health institute, NIDA plays an active role in disseminating the findings of research so that they can be applied. Since results of the "Monitoring the Future" survey, published in 1994 indicated that marijuana use was increasing, NIDA has initiated numerous activities which are integral parts of the Department's comprehensive response to this problem. These activities include the following:

- National Prevention/Treatment/Research Conference on Marijuana Use. This is the first conference designed to provide science-based information on the extent of the problem, effects, consequences, prevention, and treatment of marijuana use. It is hoped that the conference, to be held in July of this year, will help dispel myths by providing facts that will inform the public, educators, prevention and treatment providers, researchers, and policymakers about the problem of marijuana use and what can be done about it.

- Public Information Materials. Two booklets, one for parents and one for teenagers, are being developed for release at the National Conference. They will provide answers to commonly asked questions about marijuana in a question and answer format.

- Public Service Announcements. NIDA is working with the Partnership for a Drug-Free America to develop public service announcements on marijuana use and its consequences geared toward an adult audience.

- Science Education Materials. Science-based information on marijuana will be presented in a colorful pamphlet designed to educate youth about the effects and consequences of use. These materials are designed to educate students about marijuana use as well as to interest them in careers in addiction science by presenting what we know from science in an appealing manner.

- Grant Announcements. NIDA will solicit applications for supplements to current research grants on marijuana. In addition, NIDA in the next month will issue an ongoing Program Announcement soliciting applications for research in this area.

NEUROFIBROMATOSIS

In its FY 1995 Committee Report, the Senate supported the expansion of NINDS' cooperative research activities with the NCI and other NIH Institutes involved in neurofibromatosis (NF) research.

Question. Please report on the NINDS' efforts to implement the Committee's recommendations, specifically to expand your Institute's cooperative research activities with NCI and other Institutes and Centers at NIH.

Answer. The neurofibromatoses (NF) are genetic disorders that primarily affect cell growth of neural tissues. As such, they are primarily neurological disorders treated by neurologists and belong within the portfolio of the National Institute of Neurological Disorders and Stroke (NINDS) which continues to be the key NIH component providing leadership on neurofibromatosis research. These disorders can cause tumors to grow on the nerves, and in this regard are also of interest to scientists in and supported by the National Cancer Institute (NCI). The NINDS and the NCI have jointly issued a Program Announcement encouraging grant applications concerning neurofibromatosis, and staff from the two Institutes work together cooperatively concerning project review and funding issues. Several other manifestations of the NF disorders have impact on other systems of the body that are of interest to other NIH components. For example, as NF affects vision and hearing, the National Eye Institute and the National Institute on Deafness and Other Communication Disorders (NIDCD) also have scientific interest. Studies related to deafness or the developmental disabilities may be assigned to NIDCD or the National Institute of Child Health and Human Development. In most cases there is a dual assignment of the projects to NINDS.

Question. In addition, what is the level of NF research at NINDS?

Answer. NINDS also plans to support a workshop on neurofibromatosis in July 1995, and it is possible that other Institutes will provide funding as well. The NINDS continues to vigorously promote research on neurofibromatosis, and provide a focal point within NIH for the disease. Specific areas of research funded by NINDS include:

- Mutations in the genes for the two major forms of NF (NF1 and NF2).
- The role of the proteins encoded by the genes.
- The role of the genes as tumor suppressors, and how that activity is eliminated by mutation.
- Creation and study of mice in which the NF1 and NF2 genes have been "knocked-out".
- Development of antisera for the study of the proteins for NF1 and NF2.
- Abnormal calcium signalling in cells defective in NF1.
- Development of a diagnostic test for NF1 and NF2.
- Basic studies on the neurodevelopmental mechanisms involving neural crest cell migration and differentiation.

Question. What levels and kind of research do you plan to fund in FY 96?

Answer. Additional research to be added in FY96 includes:

- Studies on clinical variability based on genotype-phenotype associations.

- Studies focused on the therapeutic strategies for the clinical manifestations of NF1 and NF2.

The NINDS research budgets for NF are: FY 1994, $5,598,000; FY 1995 Estimate, $5,756,000; and the FY 1996 President's Budget provides $5,986,000.

CHRONIC FATIGUE SYNDROME

Question. It is our understanding that CFIDS (CFS) Cooperative Research Center applications will be finally reviewed this June. Has the application review process allowed NIH to evaluate the effectiveness of present CRCs?

Answer. The first level of review for the applications in response to the Chronic Fatigue Syndrome Cooperative Research Centers RFA took place in March 1995; the second level of review will take place on June 5, 1995 at the meeting of the National Advisory Allergy and Infectious Diseases Council.

The reviewers and applicants received copies of the review criteria for this RFA as published in the NIH Guide for Grants and Contracts. In addition to general criteria related to the scientific and technical aspects of the proposals, reviewers considered the qualifications and research experience of investigators, availability of resources necessary to perform the research, and proposed budget. Specific review criteria related to patient population issues.

Additionally, the RFA required that previously funded CRCs submit a comprehensive progress report as part of their renewal application. As a matter of course, the past performance of all applicants, whether NIH-supported or not, is routinely judged by preliminary data, publication record, and quality of the submitted application.

In addition to the peer review of the competing CRC applications, the CRC program is carefully monitored by NIAID staff in several ways. Each ongoing CRC must submit an annual progress report prior to receiving funding for the next year. Staff members and CRC Center Directors frequently communicate about research findings, progress or problems. An annual CRC Center Directors meeting is held that allows for exchange of ideas among CRC Center Directors, NIAID staff and scientists invited for their expertise in CFS-related research areas.

The initial CRCs were awarded in the fall of 1991. Given the complicated nature of CFS, they have made very good progress. Collectively, they have discerned a number of differences between CFS patients, healthy controls and individuals with other chronic illnesses. These findings studies form the basis of future research that will lead to an understanding of CFS pathogenesis and strategies to treat and prevent it.

Question. Has NIH made any progress in identifying the appropriate NIH advisory committees for CFIDS (CFS) representation outside NIAID?

Answer. The desire of constituency groups for representation on multiple NIH Advisory Councils has been brought to the attention of the members of the NIH Chronic Fatigue Syndrome Coordinating Committee. However, each Institute in the NIH has a specific mission to support research and research manpower development for particular aspects of human health and uses advisory bodies appropriately constituted for that mission.

Many NIH Advisory Councils do have members with expertise in virology, immunology, physiology, internal medicine and neuroendocrinology, which reflects the range of disciplines found among CFS investigators and research applications. Thus, if CFS-related applications were to come to the attention of those Councils, there would be appropriate scientific expertise to review them.

Individuals wishing to nominate themselves or others to advisory councils, may submit their names and credentials to the NIH Committee Management Information System by contacting:

NIH Consultant File Project
7101 Wisconsin Avenue
Suite 1125 Department 07
Bethesda, MD 20814-5228
(FAX 301-718-8439)

The information in this database is available to all NIH Institutes seeking candidates for advisory groups.

Question. Will NIH revise its recommendations for CFIDS (CFS) patients with respect to exercise in light of research cited in the report that has demonstrated that exercise can induce relapse in CFIDS (CFS) patients?

Answer. NIH has not made specific recommendations related to exercise for CFS patients. There is not a consensus in the medical community for a single treatment modality or approach or a defined level of exercise that is appropriate for all CFS patients. Tolerance to exercise varies greatly among individual CFS patients. However, the adverse effects on general health status from deconditioning makes it important for patients to participate in physical activities appropriate for their state of health. This level can best be determined by the patient and their own physician.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

NEUROFIBROMATOSIS (NF)

The National Institutes of Health (NIH) and this Subcommittee have repeatedly acknowledged the importance of Neurofibromatosis research. As you know, the nature of this genetic disorder has implications for finding treatments and cures for other diseases including cancer.

Question. How has NIH coordinated its activities relative to Neurofibromatosis (NF) in the past?

Answer. The standard research funding mechanisms and policies of the NIH promote coordinated research on disorders such as NF that affect several body systems or cut across scientific disciplines. For example, referral guidelines ensure that research grant applications are assigned to the Institute or Center with the closest match in terms of mission, and require that other interested components be informed and have the opportunity to request dual assignment.

The National Institute of Neurological Disorders and Stroke (NINDS) and the National Cancer Institute (NCI) have jointly issued a Program Announcement encouraging grant applications concerning neurofibromatosis, and staff from the two Institutes work together cooperatively concerning project review and funding issues, based on their common interest in tumors affecting the nervous system. Several other manifestations of the NF disorders have impact on other systems of the body that are of interest to other NIH components. For example, as NF affects vision and hearing, the National Eye Institute and the National Institute on Deafness and Other Communication Disorders (NIDCD) also have scientific interest. Studies related to deafness or the developmental disabilities may be assigned to NIDCD or the National Institute of Child Health and Human Development. In most cases there is a dual assignment of the projects to NINDS. NINDS issued another Program Announcement on Neurogenetic Disorders of Infancy and Childhood including the neurofibromatoses recently. Program announcements notify the scientific community of continuing NIH interest in the submission of research grant applications concerning NF. They are circulated to other Institutes for possible cosponsorship, in accordance with NIH policy. As grant applicants respond, NINDS extramural staff confer regularly with other Institutes to discuss the appropriateness of dual assignment or cofunding.

NINDS Intramural scientists are using imaging studies to assist in defining and classifying tumors of the nervous system, such as in NF, an effort that potentially may offer great assistance to other Institute scientists in the field, since there are many manifestations and sub-types of NF that have thus far eluded precise definition. Due to the enormous progress in NF research through NIH-sponsored studies, the current situation is one of great opportunity. NF remains an important area of research for the NINDS and other contributing NIH components.

Question. I understand that the congressionally requested NIH report on the status of NF research that was issued in 1993 contained some omissions and errors. Does NIH have any intention of correcting and updating that report?

Answer. The NINDS is currently coordinating the preparation of an updated report from all involved NIH components. NF research in the past few years has been flourishing, and there are several new findings to report.

It is unfortunate that some advocates for research in this area considered the report submitted to the Committee two years ago to be inadequate. Most respondents, including the oldest and largest of the private voluntary agencies associated with NF, were pleased by the report. Three major items of concern were related to the alleged omission of projects sponsored by the National Cancer Institute (NCI), the National Center for Human Genome Research (NCHGR), and the National Institute of Child Health and Human Development (NICHD), respectively. The NCI was, in fact, one of the major contributors to the report and included a description of its significant, applicable research in the report. The NCHGR is now supporting a small grant project to sequence the region near the NF 1 gene. However, this project was not supported during the period covered by the report. Finally, the NICHD study is, in fact, not a research project investigating NF; it is a major program project studying learning disabilities. One arm of the larger program project has some enrolled subjects who have NF, but the fact they have NF is not the major focus of the study.

Question. Under the fiscal year 1995 appropriations bill, increased funding was requested for Neurofibromatosis research. What efforts has NIH made to stimulate neurofibromatosis research?

Answer. NINDS has issued a program announcement on Neurogenetic Disorders of Infancy and Childhood, including neurofibromatosis. The Institute also expects to provide funding for a workshop in July of this year--the 13th in a series of successful workshops held under the auspices of the National Neurofibromatosis Foundation. Topics will include clinical aspects, molecular genetics, animal models, and therapeutic approaches. Such workshops are an excellent way to stimulate research.

HUMAN GENOME RESEARCH

I understand that from a scientific and medical standpoint, it would be desirable to develop a concerted program to sequence the entire genome of pathogenic bacteria including E. coli O157:H7, and to compare them with corresponding strains.

Question. Does NIH see a value to coordinating gene sequencing of bacterial pathogens? If so, are there plans to coordinate efforts between the National Institute of Human Genome Research; the National Institute of Allergy and Infectious Diseases; and the National Institute of Diabetes, Digestive and Kidney Diseases?

Answer. During the past few years spectacular advances in genomic DNA sequencing of model organisms such as a laboratory strain of E. coli, yeast, Drosophila, and C. elegans have clearly demonstrated the high value of genomic DNA sequences for providing key insights to biology and molecular medicine, and have greatly increased the desire to sequence the genomes of many medically important microorganisms. At the same time, genomic DNA sequencing is still relatively expensive and technological improvements are needed to increase cost-effectiveness.

At the start of the Human Genome Project in 1990 the cost of genomic DNA sequencing was estimated to be about $5 per nucleotide, too high to support sequencing the human genome or even the much simpler bacterial genomes. Therefore, the National Center for Human Genome Research (NCHGR) has focused much attention toward improved sequencing technology. This effort has been very successful, such that in the most advanced sequencing laboratories the cost of genomic sequencing is now about $0.50 per nucleotide. However, even with these improvements the cost of sequencing bacterial genomes requires expenditures of one to several million dollars.

The NCHGR believes that sequencing technology advances are achievable within the next few years that will lead to another ten fold reduction in sequencing costs and intends to provide increased funding to these efforts. With these improvements the cost of sequencing bacterial genomes would be much more cost-effective. NCHGR staff communicates regularly with the staffs of other Institutes, such as NIAID, with respect to advances in DNA sequencing technology and it is anticipated that those Institutes will take responsibility for the sequencing of bacterial genomes relevant to their mission. The balance of technology development provided by the NCHGR and support for sequencing medically important bacterial genomes by the appropriate Institutes will be a very effective mechanism for assuring rapid progress.

CONCLUSION OF HEARINGS

Senator SPECTER. We thank you all very much for your devoted service, and thank you for your help today. That concludes our hearings. The subcommittee will stand in recess awaiting the call of the Chair.

[Whereupon, at 3:50 p.m., Thursday, May 18, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

RELATED AGENCIES

[CLERK'S NOTE.—The subcommittee was unable to hold hearings on related agencies, but the statements of those submitting written testimony are as follows.]

[The statements follow:]

ARMED FORCES RETIREMENT HOME BOARD

STATEMENT OF DENNIS W. JAHNIGEN, M.D., CHAIRMAN

Introduction

The mission of the Armed Forces Retirement Home (AFRH) is to provide a continuum of care and service in a retirement community for retired and former members of the Armed Forces and to provide the highest quality of residential, social and health services to residents. The continuing accomplishment of this mission is dependent upon several factors - the dedicated management of the two sites by the Directors and their staff; the operational oversight of the local Boards of Trustees; the guidance and policy oversight of the Armed Forces Retirement Home Board (AFRHB); the interaction of the AFRH as an independent agency with the Department of Defense, the services and Congress; and upon the involvement and active participation of the residents in the operation of their "homes."

The Armed Forces Retirement Home Board (AFRHB) membership is directed by Congress to be not less than 16, and is now at 24. Congress only specified that two persons who are senior noncommissioned officers of the Armed Forces were to be members. In 1994, the AFRHB increased this to include all four senior noncommissioned officers of the Armed Forces. Members are listed at attachment one. The Board now includes also, as a non-voting member, the Chair of the Resident Advisory Committee from each Home. We believe the participation of resident representatives will enhance the function of the Board and ensure responsiveness to issues. The Board is composed of individuals who are serious, competent and committed to any changes necessary for a unified Home, beneficial to all services.

The membership of the local Boards of Trustees is also directed by Congress, and represents an assemblage of concerned individuals and representatives who apply their expertise to the operational issues brought to them by the two Homes. Members in these two Boards are listed at attachment two.

The staff of the two sites, the U. S. Soldiers' and Airmen's Home (USSAH) in Washington, and the U. S. Naval Home (USNH) in Gulfport, represent all of the primary professions in long term care. The combined resident population is currently 2205, with 1,666 at the USSAH and 539 at USNH. The residents' home states include 49 of the 50, and Washington, DC, Puerto Rico and South Africa. To care for the operational and direct care needs of those residents, 1,023 staff are employed at the two Homes. This is a mix of full-time permanent, part-time and some resident employees (at USSAH). The annual operating cost per resident per year at the AFRH is $23,813. This figure is comparable with a state veterans' domiciliary, considerably under the cost of a Veterans Affairs (VA) domiciliary; over 40 percent less than a state nursing home, and less than one-third the cost of a VA nursing home. The population at USNH during the year reached 541 - near facility design capacity of 550.

However the population at USSAH has decreased from last year. This decrease is due in part to the less than desirable conditions in some of the dormitories (lacking private baths). With current fiscal problems, any new construction/renovation and all maintenance other than life-safety features have been curtailed. Certain projects approved and funded in previous years' budgets, however, have been completed.

With the downsizing of the Total Force, the funding stream for the AFRH trust fund has likewise been reduced. Fines and forfeitures (which represented almost 52% of the income source in fiscal year 1993) have continued their steady decline. The slowing of the funding stream is compounded by the commensurate drop in total trust fund and loss of interest realized from the investment of that fund. During fiscal year 1994, the AFRHB, in coordination with senior Department of Defense officials, proposed Congressional language to allow an increase in the involuntary active duty pay deduction to support the trust fund, in addition to a phased increase in resident fees based upon level of care at the Homes. Congress acknowledged their concerns with the fiscal situation by including in Public Law 103-337, the National Defense Authorization Act for 1995, language authorizing the AFRH to increase the resident fees beginning in 1998, and authorizing the Secretary of Defense to increase the pay deduction in January 1995. The Secretary of Defense decided to defer implementation of the increased pay deduction, however, until the results of the ongoing strategic study/economic analysis are known. A financial report as of December 31, 1994 is at attachment three.

As Congress passed the language in the National Defense Authorization Act of 1995, they added a requirement that the AFRHB carry out a study to identify and evaluate alternatives for modernization of the facilities at the USSAH. As mentioned above, all major renovations and improvements not already approved had been tabled for the future. The AFRHB chose to expand the congressionally directed study to provide data on which to base long term strategic planning. The study objectives now encompass direction to provide estimates of optimal size of each operating location of the AFRH; to identify the most cost effective location (or combination) for economic performance; and to identify the most cost effective use of AFRH facilities including renovation, new construction, and partial or complete closure. The alternates to be analyzed are based on population - status quo, not to exceed annual income and most favorable use of existing real property; location - a mix of scenarios including two sites, three sites, consolidation at one existing site, and consolidation at new site; and construction - involving either renovation or new construction. A contract was let in January 1995 with Coopers & Lybrand, L.L.P, to conduct the study. An interim report on the study was provided to Congress on April 1, and a final report will be provided in December 1995.

The year in review

Both Homes have made strides in improving the quality of life for residents. The USNH has completed extensive kitchen and dining room renovations, and the USSAH has instituted new menus to promote low fat, low cholesterol and low sodium food items. In addition, chapel renovations have been completed at both Homes, stained glass windows installed, and rededications conducted. The USNH has added 143 additional parking spaces for residents, and a new 1800 square foot multi-purpose room in the Long Term Care Unit.

Numerous projects previously approved and funded have resulted in enhancement of daily living conditions for the residents of both Homes. The USNH expanded handicap accessibility in the hobby shop and post office and the USSAH installed automatic entrance doors in the Sheridan building. A new bowling alley, fitness center and an enlarged exchange retail store were completed in September at USSAH, and a 400 square foot gazebo was constructed at the USNH. The Naval Construction Battalion Center, Gulfport, MS, did the construction as a training project, using Home purchased materials. A new patio containing shuffleboard courts at the Scott building at USSAH are currently under construction.

Although major capital projects have been put on hold at both Homes, the staff experts at both Homes have continued to utilize their in-house talents. Engineering design and specifications have been reviewed for compliance with local and federal safety, fire, health handicapped accessibility and environmental control measures. Analyses have been conducted on personnel injuries and accidents, in conjunction with new Office of Safety and Health Administration (OSHA) requirements. At USNH, they added heating, ventilation and air conditioning maintenance and repair as a staff function, realizing a significant dollar savings over previous contract. The physical structures of USSAH are suffering from delayed renovations and upgrades. This delay has required that an upgrade of air conditioning be accomplished to maintain residents' quality of life. This project will be accomplished by the beginning of this summer so that residents' minimum comfort level will be maintained

The psychological and physiological condition of a population that is aging in place presents many challenges and demands on the resources of the Homes. The Homes have met those challenges and demands in a variety of contemporary and innovative ways. At both Homes, negotiated agreements with independent contractors now provide physical therapy, occupational therapy and speech therapy for the residents with the majority of those services billed to Medicare or other patient insurance providers. Substantial savings have been achieved and services increased. USSAH has also developed an agreement with the Washington Veterans Affairs Medical Center to provide on-site and referral psychiatric services for the residents, and has reached an agreement with vendors of durable medical equipment and wound care products for the billing of Medicare where coverage is available. The USNH has similar agreements with providers in Mississippi. These agreements assure an improved level of support for residents who now have expanded options for care. There is a certain segment of the population of both Homes who have need for a special care or dementia unit. That need can be met at USSAH, in the new King Health Center; but at the USNH, the establishment of such a unit has been delayed due to the fiscal situation. Also USNH has an urgent need for a 75 bed health center, separate from the main tower building. The fiscal situation has also put this design and construction on "hold." As an additional avenue for care providers, at USNH, they have negotiated agreements with several military activities to host their physicians for gerontological experience with the residents. Family practice and internal medicine resident physicians from the Naval Hospital, Pensacola, FL, the U. S. Air Force Hospital at Eglin Air Force Base, FL, and from the U. S. Air Force Base Hospital at Keesler, Air Force Base, MS, will assist in the long term care unit and clinics for 2 to 4 weeks per doctor. They have also expanded formal preceptor programs that already include social work and therapeutic recreation to include geriatric degree students, and history students with oral history concentration. A formal gerontology training program for non-health care employees of USNH has been continued, and through health fairs, participation with state and national associations, and implementation of Total Quality Management throughout the facility, the USNH is bridging the distance between federal and private sector models. USNH has also implemented an aggressive smoking cessation program, and current resident population who smoke is less than 18%. The USSAH has conducted an in-depth review of the staffing of the Health Care Services Directorate in order to obtain the most effective and efficient organization which will best meet the health care needs of the populace, while minimizing costs. The USNH has accomplished other improvements in the fiscal area by gaining in-house contracting capability, awarding a new food service contract which allows greater flexibility in cost and quality, and by purchasing pharmaceuticals through the DoD prime vendor program.

The Armed Forces Retirement Home is continuing to evaluate its work processes and business practices to ensure compliance with the work force reductions recommended by the National Performance Review and set in law by the Federal Workplace Restructuring Act of 1994. The guidance to the Armed Forces Retirement Home is to reduce from a level of 1,130 full time equivalents (FTE) in fiscal year 1993 to a level of 1,008 by fiscal year 1999. The fiscal year 1996 goal was to be at a level of 1,075 FTE. The fiscal year 1996 budget request presented today funds a level of 1,023 FTE, which is 52 FTE below the guidance level, and, in fact, is 13 FTE less than the guidance level for fiscal year 1998. So the Armed Forces Retirement Home is well on its way to meeting the goal of downsizing.

The budget submitted for fiscal year 1996 requests $59,120,000 to be paid from funds available in the Armed Forces Retirement Home Trust Fund. For fiscal year 1996, the total O&M request for the Soldiers' and Airmen's Home is $45,090,000, a decrease of $276,000 from the fiscal year 1995 appropriated level. After funding pay raises and inflation, this reduced funding will result in a reduction of 4 FTE, reduced funding for service contracts, supplies and equipment. The fiscal year O&M for the Naval Home is $11,979,000. The fiscal year 1996 Capital Outlay request of $1,483,000 for the Soldiers' and Airmen's Home and $568,000 for the Naval Home is required to accomplish renovation projects required to meet minimum standards in support of residents.

The morale of the residents contributes immeasurably to their physical well-being. A full schedule of activities, both recreational and informational, has been ongoing at both Homes. Also ongoing and growing is the joint marketing of the Homes, which involves and impacts the residents. An ad hoc Communications and Marketing Committee was established by the AFRHB in August of 1994, chaired by the Master Chief Petty Officer of the Navy. Its goal is to develop "one image" of both Homes for active duty personnel (while still maintaining service identity), to develop continuity of internal communications to residents with a common forum for exchange of data, and to design a plan of marketing the homes to both retirees and the general public/organizations. That ad hoc committee has now become a standing one, with Service videos featuring the Homes in the works, and an ad campaign on the drawing board.

The resource managers of both Homes are joining forces to structure a more finely-tuned and integrated financial entity. They are resolving dissimilarities in financial accounts; and with the implementation of new computer programs at USSAH and duplication of the program at USNH, will share a common system for management of the now-merging two trust funds. For the first time this year, a joint budget was submitted for AFRH. The USSAH is further strengthening its financial management controls by a new inventory management system and an interface with both the accounting and procurement systems. Agreement is being reached on levels of care definitions, which directly impact the resident fees which will increase in 1998. Congressional language now states resident fees will be determined by a percentage of "all" income (rather than previous federal income only), therefore an aggressive effort is underway to identify all income through computer matching agreements with the Department of Defense, Department of Veterans Affairs, Office of Personnel Management and the Social Security Administration. Both Homes are investigating computer hardware and software that will promote greater productivity and connectivity. Both homes are now capable of accessing on-line information on each resident who maintains a Controlled Account, and their resident billing and accounts receivable accounting systems provide easily assessable on-line information on resident accounts as well as greatly improved management reports. By a contractual agreement the Navy Audit Service has recently conducted audits at both Homes, and we continue with Department of Defense Inspector General routine inspections.

The reason for the Homes...the residents

The community that is the homes provides an environment of safety, security and camaraderie for shared life experiences. The residents themselves constitute the heart of the Homes. The average member age for the Homes is 73.9, but the youngest is 36 (at USSAH) and oldest is 100. With the combination of the two homes into one entity, transfers are becoming more common between the two sites, with around 15 occurring this year.

The residents have and exercise a voice in the operation of the Homes. Their Residents Councils meet regularly, and have a representative on each local Board of Trustees and on the AFRHB. The Directors of both Homes have frequent "Town Hall" meetings and "Director's Call" to enable the residents to present questions and issues of concern. A uniform resident's manual for both Homes is being developed with common avenues of voicing grievances and appeals. Residents serve as tour guides for visitors to the facilities, introducing other residents and providing one-to-one interaction into their daily lives. The residents themselves are the best spokespeople for the Homes and have recently been featured in articles by service and military organizational publications, in the Washington Post (feature on auxiliary White House Mail Room), and travel to fraternal and service organization conferences to make presentations. Both Homes welcome any individuals or groups wishing to visit and gain more information.

The stewardship and the future of the AFRH

The Boards of Trustees of the Homes meet four times yearly. They provide each Home with specific oversight, and the Chairman of each Board also participates as a voting member on the Armed Forces Retirement Home Board. They are all busy professionals in their regular positions, and take on the Board of Trustees duties as collateral ones.

The Armed Forces Retirement Home Board is a select grouping of representatives of the Services and Department of Defense, combined with civilian experts in gerontology and the management of Continuing Care Retirement Communities. They bring a vested interest and an informed and experienced team to develop policy and long range strategy for the AFRH. In spite of being fragmented by geographical and organizational distances, they work together, not only at the scheduled meetings, but in the interim to organize, evaluate, analyze and develop plans for the continued positive development of the entity of the AFRH. The standing committees of Executive, Finance, Strategic Planning, Human Resources and Marketing and Communications are assisted from time to time by additional ad hoc committees. They rely upon the day to day management of the Homes, but serve as that needed adjunct to complete the necessary structural element of oversight. The AFRHB clearly recognizes that there is room to improve and build on management practices and efficiencies at both Homes. The imminent concern is for relief to the financing problem of the AFRH, but they are also working on a long-range strategy. In approaching the financing problems, their efforts are based on the principles of efficient operations, fairness in resident fees, equity in assessments, and *single home* access.

A number of additional financing options have been considered and analyzed by the Ad Hoc Alternative Funding committee. None were recommended, but dialogue is ongoing to develop more options.

The previously mentioned economic analysis/feasibility study will provide data for long range planning. The AFRHB is looking for an objective analysis of potential future scenarios upon which to further craft courses of action.

The AFRHB knows that *status quo* cannot continue at the homes. As with any dynamic organization, constant improvements and efficiencies must be sought and achieved. As the two previously separate organizations move to mirror each other in all ways practicable, management actions will be possible to become more cost efficient and effective. The AFRHB is committed to that end. The primary goals for the foreseeable future are - to ensure a quality home for residents, a single entity serving all eligible, and to become financially stable, with a balanced budget by FY 2000 with increased funding and cost effectiveness. The AFRHB seeks the help of all - residents, management, Department of Defense and related agencies, and Congress, to achieve those goals, as we all work for a better future for the *Armed Forces Retirement Home.*

FINANCIAL REPORT
Armed Forces Retirement Home Trust Fund
As of December 31, 1994

Trust Fund Balance, October 1, 1994		$161,908,470
Receipts		
Interest	2,427,222	
Fines and Forfeitures	6,075,949	
Pay Deductions	2,082,248	
Residents' Fees	2,256,431	
Bequests, Estates, Misc	107,432	
Total Receipts		$12,949,282
Disbursements		
U S. Naval Home		
Capital Outlay	0	
Operations and Maintenance	3,067,428	
U S. Soldiers' and Airmen's Home		
Capital Outlay	303,743	
Operations and Maintenance	11,814,709	
Total Disbursements		$15,185,880
Trust Fund Balance, December 31, 1994		$159,671,872

Armed Forces Retirement Home Trust Fund
Balance as of 31 December 1994

Trust Fund Balance 30 September 1994		161,908,470
Less Undisbursed Appropriations		
Capital Outlay	19,010,022	
FY 90 O&M	187,741	
FY 91 O&M	646,621	
FY 92 O&M	64,031	
FY 93 O&M	116,547	
FY 94 O&M	2,497,662	
Total Available Appropriations 30 Sep 1994	22,522,624	
Unappropriated Balance 30 Sep 1994		139,385,846
Less Undisbursed FY 95 Appropriation		
Capital Outlay	2,906,000	
O&M	56,411,000	
Total Available Appropriations 1 Oct 1994	59,317,000	
Unappropriated Balance 1 October 1994		80,068,846
Income FY 95		
Interest on Trust Fund (Cash Received)	2,427,222	
Pay Withholding	2,082,248	
Fines & Forfeitures	6,075,949	
Resident Fees	2,256,431	
Estates, Misc Receipts	107,432	
Total Income FY 95	2,949,282	
Total Unappropriated Balance 31 December 1994		93,018,128

Available Appropriations 31 December 1994		
Capital Outlay	21,612,279	
FY 90 O&M	187,741	
FY 91 O&M	646,621	
FY 92 O&M	64,031	
FY 93 O&M	115,765	
FY 94 O&M	494,769	
FY 95 O&M	43,532,538	
Total Available Appropriations	66,653,744	
Trust Fund Balance 31 December 1994		159,671,872

ARMED FORCES RETIREMENT HOME OPPORTUNITIES AND PLANNED ACCOMPLISHMENTS

The Armed Forces Retirement Home (AFRH) has the opportunity to be innovative in service delivery and to be a resource to other providers of geriatric long term care service as well as enhance the quality of services provided to the residents.

The following programs provide examples of some promising opportunities for meeting the needs of our customer base and the diverse needs of a population which is living longer.

Special Care Unit The SCU is designed to provide placement for residents with organic brain syndrome, functional disorders, and maladjusted behaviors. The unit is needed at the USNH, and would be located in existing spaces in the Long Term Care Unit and employ a Multidisciplinary approach to resident care

Wellness Center The concept is to incorporate preventive and maintenance health care in a program designed to meet the physical, mental, emotional, spiritual and recreational needs of the residents This program emphasizes retention of autonomy, self care, and acknowledges the personal responsibility of the residents for their overall health care needs It utilizes a Multidisciplinary approach to addressing these needs The goal is for residents to live longer, healthier lives This would in turn reduce medical care costs

Education/Training Program These extremely popular, ongoing programs provide training at the AFRH for students and professionals in training. Currently, both facilities of the AFRH have memorandums of understanding with local military hospitals to provide geriatric rotation for their resident doctors and other trainees. Because of the active duty military status of the doctors, the AFRH incurs no cost but benefits from the additional medical staff, and the trainees experience a unique high quality environment for long-term care Programs in conjunction with local colleges and universities for students in social work, recreational therapy and nursing provide resident benefit with minimal costs The AFRH can serve as a major educational institution as it expands such programs with other federal agencies and institutions of higher learning

Community Service The USNH is involved in the local community through Partners in Education and a Scholarship Foundation The USSAH is involved with the local community by sponsorship of Kids to Kamp and computer classes for youngsters 8-13 in cooperation with Community Support Network Additional programs would facilitate volunteering by residents As residents become more involved with community programs, their life experiences will increase community quality of life in a symbiotic relationship.

Future Geriatric Studies The AFRH, as a microcosm of geriatric activity and living, could serve as the focus of future long-term studies to help answer questions of health and fitness.

Other opportunities exist for the expansion of the AFRH mission.

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The first is to consider extending eligibility across the "Total Force" by including the Reserve Component retiree The contributions of the Reserve Component retiree, the citizen soldier, mandates equitable treatment, and the establishment of eligibility criteria for that retiree. Payroll deductions can be established for the Reserves as well as appropriate disposition of fines and forfeitures. Inclusion of the retired reservist in the field of eligibility would expand the base of income for the AFRH and may be warranted in an era of changing roles and missions

The second is to recognize a spouse's contribution to the military family and to the success of the Armed Forces by considering admission to the spouse. The spouses of those eligible for residency are currently excluded from admission unless they are eligible in their own right Subsequent to the advent of the all volunteer force, the Services initiated action to care for, emphasize and "recruit" the entire family in order to retain careerists in the Armed Forces These retirees are reaching the age of eligibility for the AFRH in increasing numbers Those still living with a spouse are dissuaded from becoming a resident of the Home as it requires a decision to live apart Eligibility of the spouse could be accommodated with an appropriate fee structure and would reduce the per resident cost Private sector experience is that one spouse assists and cares for the other in the independent living unit, thus postponing the demand for staff assistance Allowing spousal admissions would maintain the family atmosphere Discussions of this issue are in the preliminary stages

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QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

The AFRH FY 1996 Budget Request of $59,120,000 is comprised of $57,299,000 for Operations and Maintenance (O&M) ($230,000 will be funded from reimbursables), and $2,051 for Capital Outlay (CO) expenditures Of the total O&M budget, current estimates indicate that over 75 percent will be needed to fund the required full time equivalent (FTE) positions as specified in the Presidents FY 96 budget Thus leaving a 10 percent reduction to be realized from non-salary dollars

The bulk of the non-salary dollars are consumed by non-discretionary and relatively fixed costs, such as electricity, fuel oil, natural gas, custodial services, contract services such as payroll preparation, and food, medical and pharmacy supplies A 10 percent reduction cannot be achieved without immediate and drastic reduction in the amount and quality of services currently provided to residents, and in potential closure of buildings

As an example of the impact, at the U S Naval Home it is estimated that outpatient pharmacy service would be eliminated, shifting costs to the DoD and Veterans Association All maintenance, except those repairs critical to plant operation or patient care would cease All capitol projects would be canceled, and no equipment replacement would take place The dental care program would be severely reduced, preventing its contribution to the overall health of residents Services provided through Therapeutic Recreation and Social Work would be reduced and Religious Programs would be eliminated

Attempting to absorb the reduction within salary accounts would require an immediate reduction of over 110 FTEs before the beginning of the fiscal year - clearly an option which is not attainable Since a 60 day notice is required in a Reduction in Force (RIF) situation, this reduction of FTEs would have to be paid for a minimum of 60 days in the new fiscal year at a cost of $748,000 In order to absorb this $748,000, another 18 FTE would have to be eliminated as a domino effect

Savings from personnel decreases would not be realized until the following years Instead, additional costs (not savings) in fiscal year 1996 would be incurred for severance pay and lump sum accrued annual leave payments This could average as much as

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$15,000 per employee for a total of nearly $2,000,000. Without adequate time to plan and properly conduct such personnel reductions, snowballing costs (not savings) can result.

An end result of such a significant decrease in fiscal year 1996 budget would dramatically impact all aspects of the AFRH and the accomplishment of its mission. This could pose a serious threat in providing the services necessary to maintain the health, safety and well-being of our residents. It could become necessary to place a freeze on reducing the population providing the larger share of resident fees, and requiring the less costly care. Should any reduction be unavoidable, we respectfully request that the Capital Outlay portion be reduced before any monies are removed from our O&M accounts. This action would provide an avenue to minimize the disruption and elimination of services to our residents.

As you are aware, the appropriations of funds in the support of the AFRH is not an appropriation from the General Fund of the Treasury, but, is in fact, permission to spend monies already accumulated in the AFRH Trust Fund. The revenue to the Trust Fund comes from sources already counted as outlays, i.e., withheld pay, fines and forfeiture from military pay, and the resident fees which come from Federal sources such as retired military pay, social security and Veterans benefits. Therefore, we urge that they not again be counted as outlays in determining the deficit, and be subject to the same reductions as other agencies.

CORPORATION FOR NATIONAL SERVICE

STATEMENT OF ELI J. SEGAL, CHIEF EXECUTIVE OFFICER

INTRODUCTION

Mr. Chairman, Members of the Subcommittee, thank you for this opportunity to present to you the Administration's FY 1996 budget request for $262.9 million to support over a half million Americans engaged in service through the programs authorized by the Domestic Volunteer Service Act. These programs, formerly housed under the ACTION agency, are now part of the Corporation for National Service.

The Corporation is able to coordinate and offer a full array of resources needed to help communities get things done. It includes all national service programs under one roof. The newer programs -- AmeriCorps and Learn and Serve America -- have brought a renewed vigor to the national service movement, while the older programs -- Foster Grandparents, RSVP, and Senior Companions, (which comprise our "National Senior Service Corps") and AmeriCorps*VISTA -- bring a history of success and a long tradition of people serving their country and their communities.

National service is all about supporting communities. Government cannot and should not be expected to solve all of society's problems, but it can utilize over three decades of experience to support quality programs with proven community success. In these times of diminishing public resources there is a greater need than ever before for AmeriCorps*VISTA and the Senior Corps to strengthen and build the capacity of local non-profit organizations dealing with communities in need.

In a time of tight federal budgets, cost-effective programs that help communities help themselves should be maintained and strengthened. The Senior Corps and AmeriCorps*VISTA enable people of all ages to serve their communities.

The Senior Corps engages over five hundred thousand senior citizens in service to children and youth, other seniors, and their communities. AmeriCorps*VISTA assigns individuals to assist communities in finding solutions to their own problems.

The Administration's request for a $12.3 million increase for AmeriCorps*VISTA, for a total budget of $60 million, will increase the number of members to 4,075 AmeriCorps*VISTA members serving on 865 projects. It will also increase the number of members in AmeriCorps*VISTA's Literacy Corps to 459 working on 95 projects.

The FY 1996 request for $168.4 million for the National Senior Service Corps programs is driven by the demographic revolution we are experiencing in this country. Our current senior population exceeds 30 million people and promises to double in the next 30 years. Common sense tells us that we need to move more assertively to engage this rapidly growing older population in helping to solve the pressing needs of our nation's communities.

Under the Administration's budget, the Retired Senior and Volunteer Program would be increased by $8.8 million to $44.5 million, bringing the number of volunteers to 481,400. The number of Senior Companions would increase to 10,500 with the requested increase of $11.8 million, for a total budget of $43.1 million. Foster Grandparents would increase to 19,800 under the requested increase of $10.9 million, for a total budget of $78.8 million. And Senior Corps demonstration funds would be increased from $1 million to $2 million.

NATIONAL SENIOR SERVICE CORPS

America is in the midst of a demographic revolution, and the increases proposed by the Administration for the Senior Corps need to be considered in this context. Consider the statistics:

Twice as many older adults live in the United States today compared to 30 years ago. In 1993, persons 65 years or older numbered 32.8 million, and this number will double again over the next 30 years. At the same time, Americans are living longer. Life expectancy has increased dramatically since the turn of the century, from 48 to 75 -- an increase greater than the accumulated increases in all of human history. And Americans are retiring earlier than ever. This trend frees up a substantial amount of time -- on the average, more than 20 hours a week. The net result is that many Americans are now spending a significant proportion of their lives in post retirement; for many, a full third of their lives.

The question for most retired Americans is: how will I choose to live those final twenty-to-thirty years of my life? The question for policy makers is: what avenues can we provide to enable older Americans to stay involved, to engage them in helping to solve problems and to strengthen communities?

In recognition of the need for policy makers to acknowledge the resource offered to communities by older volunteers, and the need to engage the energies of America's rapidly growing older population, delegates to the 1995 White House Conference on Aging called for expansion of the Senior Corps Programs and charged the Corporation to take a leadership role in promoting volunteer service by older persons. Resolution 20.1 -- Acknowledging the Contribution of Older Volunteers -- was one of the top ten resolutions passed by the delegates.

We at the Corporation welcome the challenge presented by the White House Conference on Aging delegates and are cognizant of the significance of the overwhelming support received by Resolution 20.1. For the first time in the history of the White House Conferences on Aging, delegates placed high priority on a resolution acknowledging the resource to society represented by America's older population. Delegates underscored the fact that older people want to be involved and called for a doubling of the Corporation's current Senior Corps programs by the year 2000. This is a goal worth achieving, given our nation's demographic revolution and the effectiveness of the Senior Corps programs.

Too often we consider the demographic revolution in terms of the burdens it presents to society: issues relating to the care of the elderly; strains on entitlements such as Social Security and

Medicare; potential tensions between the old and young around limited social services. Amid concerns about the problems that will accompany our aging society, insufficient attention is paid to the enormous opportunity this demographic revolution presents. We must build on our existing infrastructure to open challenging and meaningful volunteer opportunities for our seniors.

Only 5 percent of the current 65 and older population reside in nursing homes. Eighty-one percent of non-institutionalized older persons report no difficulties with the activities of daily living. As these numbers suggest, the United States now possesses not only the largest and fastest-growing population of older persons in its history, but the healthiest, best-educated, and most vigorous. Older Americans may well constitute our only increasing natural resource.

Clearly it is in our national interest for the Federal Government to foster the development of avenues for tapping the energies and experience of America's rapidly growing senior population. One of our current most important public policy challenges is how to tap the vast potential of our retired and semi-retired citizens to enable them to assist in efforts to tackle the serious problems confronting our nation. We cannot squander the time, talent, experience, and resources our older population offers at a juncture in our history when so many social, educational, environmental and other needs remain urgent and unmet.

Fortunately, the foundation exists within the Corporation's National Senior Service Corps programs for building on the human capital represented by America's senior population. There are currently nearly one-half million older persons serving in the National Senior Service Corps programs -- over 450,000 in RSVP, 23,000 in Foster Grandparents, and 12,000 in Senior Companions. Without any major additional investment in structure, we have in place the foundation to engage many more older Americans in volunteer service programs.

These programs have managed to thrive under seven administrations, Democratic and Republican alike, with bipartisan support all along the way. The oldest of these, the Foster Grandparent Program, is the subject of a book by Nancy Reagan: To Love a Child. Consider the achievements of these programs:

The Senior Corps contributes 117 million hours of community service each year. The value of this service estimated for each program calculated at the average hourly rate determined by the Independent Sector exceeds $1 billion.

The current federal contribution of $135.8 million leverages another $85.2 million in non-federal contributions for the National Senior Service Corps programs. Every federal dollar invested in NSSC programs is currently matched by 66 cents in non-federal contributions.

The cost savings of these programs need to be considered as well. For instance, the average annual cost of one Senior Companion is approximately $3,850 per year as opposed to the average cost for nursing home care of $38,000 per year. Each Senior Companion, assigned to three individuals, potentially saves more than $100,000 in costs that otherwise would be spent on institutionalization through Medicaid.

The National Senior Service Corps programs are a vital part of the national service effort. They help the Corporation meet its goal of spreading the ethic of service to Americans of all ages and backgrounds.

The Senior Corps programs constitute a network of individual RSVP, Foster Grandparent, and Senior Companion projects across the nation that learn from each others' experiences, and build on them. They are supported by an infrastructure which ensures their success. Senior Corps program grants are distributed directly from the Corporation to local sponsors, providing an efficient, non-bureaucratic funding mechanism that eliminates the need for state supported personnel. Sponsors include a broad range of social service organizations such as United Way, the American Red Cross, Catholic Charities, Visiting Nurses Associations, and Lutheran Social

Services. Indeed, seventy-five percent of Senior Corps sponsors are social service agencies; another twenty-five percent are organizations serving older persons in need.

--Senior programs operate through a decentralized system which places resources, authority, and decision-making responsibility at the community level where the work gets done. Trained and experienced service professionals at 1,200 non-profit organizations develop placements; recruit, assign, train, and provide ongoing management support and technical assistance to community agencies and NSSC volunteers.

--36,000 local leaders, including many Members of Congress, serve on 1,200 NSSC program advisory boards, which complement the efforts of similarly led Boards of Directors of the community based organizations that manage the NSSC program grants.

--Older persons serving in the Senior Corps programs extend the staff resources and expand and enhance the services of the 72,500 public and private non-profit organizations which utilize their help to meet critical needs and get things done in their communities.

The federal government plays an important enabling role by stimulating, supporting and sustaining the National Senior Service Corps efforts -- and by providing the structure that ensures the success of the programs without suffocating civic spirit or compromising local control.

For example, working with other Corporation programs, the RSVP, Foster Grandparents, and Senior Companion programs all participated in an effort last summer which demonstrated the incredible capacity of seniors to start more than 850 new block watch programs, 16 new citizen patrol programs, six new victim assistance programs, and to open four new police mini-stations. In addition, the Foster Grandparent Program expanded services to Head Start parent-child centers, helping very young children from disadvantaged backgrounds, as a result of the availability of Corporation demonstration funds. And the RSVP program developed twelve inter-generational demonstration projects which have resulted in partnerships with local youth organizations such as Boys and Girls Clubs and have become an effective model to be replicated through the RSVP network of 765 projects across the country. A similar partnership pairs RSVP with Youth Volunteer Corps of America (YVCA) projects through YVCA's AmeriCorps project.

Behind the numbers and data are the people of the Senior Corps:

Betty Abbott, a 70 year old RSVP volunteer in Lebanon, New Hampshire, teaches decision making and life skills to prisoners. She and her fellow volunteers receive 40 hours of training before they begin their assignments. Since becoming involved, Betty has personally worked with 64 inmates. With RSVP's help, recidivism has decreased by 40 percent and the county has saved $375,000. RSVP projects in Keen and Manchester have joined the Lebanon RSVP project in providing the same service to inmates at other correctional facilities. The warden at the prison in Keene has been so impressed with the project that he has asked RSVP to teach his staff the same skills taught to the prisoners.

In Des Moines, Iowa, RSVP volunteer Dave Calister, a retired custodian, contributes his volunteer service in several arenas. He assists disabled elders at his local Senior Center, and is a presenter in RSVP's medication awareness program. He also serves with an RSVP initiated project at the Findley Elementary school called "Speak Up." "Speak Up" was developed to work with youngsters in inner city schools to help boost their self-esteem by teaching them public speaking skills in a format similar to that used by Toastmasters. Fifty fifth graders participate in the program, learning to think and speak on their feet, and learning how to respond respectfully and offer constructive suggestions to others.

RSVP offers adults like Betty and Dave who are 55 years of age and older opportunities to serve in a variety of settings throughout their communities, including courts, schools, libraries, daycare centers, hospitals, nursing homes, and economic development agencies. Volunteer services include adult basic education, mentoring, community policing, home repair, environmental education, telephone reassurance, and many other services.

Seniors 60 years and older also have the opportunity to serve through the Foster Grandparent program, providing one-to-one assistance to children and youth with special and exceptional needs. These include infants abandoned at birth, addicted to drugs or HIV-positive, children and adolescents with learning disabilities, those who have been abused, neglected, or who reside in homeless shelters or are in the juvenile justice system. Foster Grandparents serve 20 hours per week, year round, in volunteer positions with Head Start projects, hospitals, public schools, day care centers, and juvenile detention centers. Activities include academic tutoring, teaching self-care, socialization and pre-vocational skills, and teaching parenting skills to teen mothers.

Ann Creevy, 69, with the Union-Snyder FGP of Laurelton, Pennsylvania since 1988, serves troubled children and teenagers. She teaches them to express their feelings in non-violent ways and tutors them in remedial math and reading. Creevy also serves as a surrogate parent to one boy with no family. One of "Grandma Ann's" clients, five year-old Ryan, who she met in a class for developmentally disabled children, had a short attention span and couldn't communicate. Grandma Ann discovered that these deficiencies were caused, not by a handicap, as was previously thought, but by a hearing loss. In addition, her discovery of cigarette burns on Ryan's arm revealed that he also was abused.

Creevy became a foster parent to Ryan, and under her care, the boy blossomed. Within a month his lethargy subsided and in less than six months, his behavior and academic progress improved so much that he was removed from his special education class and placed into a class with his typical peers. Today, Ryan has new adoptive parents and is a happy, active, well adjusted ten-year-old who gets good grades, plays soccer -- and still telephones his Grandma Ann.

A third option available to seniors 60 years and older is the Senior Companion Program, which provides one-on-one assistance to other adults, primarily the frail elderly. The services of Senior Companions help the homebound achieve and maintain the highest possible level of independent living. Senior Companions serve 20 hours per week, year round, working as part of a comprehensive care team and providing short-term acute care assistance, non-medical personal care, home management assistance, and social interaction for the isolated. Senior Companions are usually assigned to two-to-three clients each, in many cases enabling them to live at home and avoid institutionalization.

Donald Olson, who lives in Orlando, Florida, was depressed after the death of his wife. Then, four years ago, he joined the Senior Companion Program, serving through the Community Care for the Elderly Visiting Nurses Association. He says: "I did some grieving, but soon discovered that by being an active volunteer, I was able to think of others and my own problems didn't seem as important." One of Don's clients is a stroke victim. Don takes him to doctor appointments and grocery shopping. He also assists a heart attack victim. Visiting Nurses call Donald their "eyes and ears" because he monitors his clients' conditions, and reports back on any problems.

Both Senior Companions and Foster Grandparent who meet income guidelines receive a modest stipend that helps them pay for transportation, health insurance for those not eligible for Medicare, and any other costs they incur while serving. The stipend, currently $2.45 per hour, would increase to $2.50 per hour to fulfill the mandate in our authorizing legislation.

FY 1995 was the first year of funding for the Senior Corps demonstration authority. Working with Public/Private Ventures and the Johns Hopkins School of Medicine, the Corporation is putting together a demonstration initiative that promises to match the federal contribution with private dollars to demonstrate expanded models of senior service. We plan to fund four demonstration efforts this year that focus on senior service to children, operating the demonstrations through existing Senior Corps projects rather than establishing new administrative structures. We'll build on the best of our current National Senior Service Corps projects while positioning these proven programs to meet changing needs and demographics.

Currently, the National Senior Service Corps programs provide opportunities for less than two percent of eligible seniors to participate. NSSC programs all have waiting lists, both of people who want to serve and of organizations and individuals seeking the services of our program participants. To close this gap, we should build on the experience and infrastructure of the National Senior Service Corps. The present challenge is to begin evolving these efforts into a national service movement truly capable of harnessing the vast potential offered by the senior population -- and to do so in time to ride the demographic wave, rather than allowing it to overcome us.

Recent studies have indicated that 14 million Americans over the age of 65 (37.4 percent of the senior population) would like to become involved in volunteer service, while four million current volunteers indicated they would like to contribute more time. Forty percent of those surveyed say the government should be doing more to promote service opportunities. Other studies show similar preferences.

For many older persons, retirement means a jarring transition from productivity to idleness. Fifty-five percent of elder respondents to a Louis Harris Poll lament the loss of usefulness after retirement. Isolation and loss of purpose have been shown to cause premature dependency and increased risk of deterioration, illness, and untimely death. Conversely, productive engagement and strong social networks contributes to prolonged mental and physical health.

Many of you visit the Senior Corps projects when you are in your home states, and many of you participate at recognition events. You have seen first hand the extraordinary things that are being done in communities across America by our Senior Corps volunteers. Some of you have members of your families who participate in these programs, or who are served by them. You know how these programs lift the spirits of all who are involved in them. You see their cost-effectiveness. You are aware of the dollars saved by our current investment in the National Senior Service Corps.

Enhanced investment in senior service now will pay off in the short and long term -- savings realized by the value of service rendered to communities across America by our Senior Corps volunteers; savings realized as we provide additional avenues for our older population to be involved in meaningful service opportunities; and savings realized as that very involvement keeps older people healthy and independent, delaying, shortening, or even preventing time spent depending on others and on society.

AMERICORPS*VISTA

Volunteers in Service to America (now AmeriCorps*VISTA) celebrated its 30th Anniversary this year with a track record of real and direct impact in communities throughout the country. Since the program's inception in January 1965, more than 100,000 Americans have served with AmeriCorps*VISTA on 13,000 projects mobilizing human, financial, and material resources, and strengthening the capacity of organizations to address problems affecting communities in need.

Our program's goal is to strengthen community based institutions. A recent report by the Neighborhood Leadership Task Force on Grassroots Alternatives for Public Policy (a group created at the request of House Speaker Newt Gingrich), states "...through empowerment of successful grassroots programs; through asset-building anti-poverty strategies; and through programs emphasizing opportunity and personal responsibility, expenditures on poverty can be responsibly reduced, while the numbers of people who achieve self-sufficiency can be greatly increased." AmeriCorps*VISTA has been doing this for 30 years.

AmeriCorps*VISTA members increase housing opportunities, develop literacy programs, establish community development credit unions, make health care more accessible, and generate resources for neighborhood projects. In these efforts and others, AmeriCorps*VISTA addresses locally identified needs and produces cost-effective results in some of the most underserved areas of our nation.

AmeriCorps*VISTA members are recruited for their skills, experience, and commitment. They come from all walks of life, economic levels, and age groups. AmeriCorps*VISTA members serve full time for one year, while living at the same subsistence level, about $660 a month, as the residents of the communities in which they serve. Ranging in age from 18 to 80, AmeriCorps*VISTA members are recruited both locally and nationally.

AmeriCorps*VISTA members are assigned to a variety of public and private nonprofit organizations throughout the nation. Throughout its history, the cornerstone of this program has been that local communities define, develop, and implement the initiatives, thereby assuring that local needs are addressed. Well established groups like the American Red Cross, the Boys and Girls Club and the YMCA, with large field networks, are among the organizations that serve as AmeriCorps*VISTA project sponsors.

More than two-thirds of all AmeriCorps*VISTA members are placed in small community-based non-profit organizations like Hannibal Central Business Development in Missouri. Sponsoring organizations direct the members' activities and include the local community in the planning and operation of the project. Applications for AmeriCorps*VISTA projects are generated by the communities, and all program development and monitoring takes place at the local level. Community self-sufficiency is the goal of every AmeriCorps*VISTA project. Each sponsoring organization plans from the beginning to eventually phase out AmeriCorps*VISTA and replace members with local residents. Because most AmeriCorps*VISTA projects operate for only three years, members "work themselves out of a job" by turning over to local organizations activities they began.

A recent evaluation of the AmeriCorps*VISTA program demonstrates its continued success. (Preliminary results are attached as an addendum to this testimony.) Of 674 projects operating for at least 11 months since January 1994, findings show that:

-- AmeriCorps*VISTA members raised $3.13 for every dollar of federal funding in 1994 ($1.63 in actual funds and $1.50 in-kind resources), a three to one ratio of resources generated for each dollar invested.

--AmeriCorps*VISTA members also recruited part-time volunteers from the community who provided 8.4 million hours of service, enabling activities that members initiated to become self-sustaining after they leave.

Many AmeriCorps*VISTA projects directly affect the material and human needs of communities such as the lack of housing, jobs, education, heath care and public safety. In the area of housing, for example, 16 AmeriCorps*VISTA projects alone generated $2,260,000 worth of donated materials for new housing construction and 23 projects assisted 745 individuals or families to obtain housing loans.

In Philadelphia, four Habitat for Humanity affiliates are utilizing five AmeriCorps*VISTA members to conduct two of the most important activities for any Habitat project -- fund raising and building a volunteer base. AmeriCorps*VISTA members have raised more than $120,000 from foundations, companies and churches in the Philadelphia area. As a result of their work, hundreds of community volunteers have already completed 14 new houses. Another 11 homes are currently under construction.

In West Virginia, six AmeriCorps*VISTAs assist the Cabin Creek Quilt Cooperative in running a statewide prog am to produce and market quilts. Cabin Creek trains and employs individuals to prepare fabric, design patterns, and produce quilts. Materials are supplied to local craftspeople through Cabin Creek, allowing many to work out of their homes if they have family responsibilities or live in remote rural areas.

In 1994, Cabin Creek's AmeriCorps*VISTAs solicited $850,000 in cash and in-kind donations, established partnerships with other organizations, recruited businesses to participate in financial cooperatives, published and distributed two newsletters, provided training and technical assistance to other organizations, recruited and trained volunteers, and organized business development groups.

AmeriCorps*VISTA has a special Literacy Corps working to develop and expand the efforts of organizations tackling the problems of illiteracy. These projects are primarily in the areas of workplace literacy and intergenerational literacy. Workplace literacy provides the marginally employed with skills that can be translated into a more highly productive workforce while intergenerational literacy encourages family members to improve reading skills together. Evaluations show that AmeriCorps*VISTA projects involved in adult education enrolled almost 44,000 adults in adult literacy programs, and another 35,000 adults in English as a Second Language programs. In the area of literacy alone, over three million hours of service were provided by community volunteers recruited by AmeriCorps*VISTA members and over 181,000 people benefited from AmeriCorps*VISTAs' service in one year.

At Desoto County Literacy Council in Mississippi, AmeriCorps*VISTA members recruit volunteer tutors and generate financial and material resources to support literacy services in nine counties. Members have created a county-wide system of computer literacy training called "Learning Link," which works through 30 different sites and approximately 50 computers to reach 150 people. Using this new system, people can go to their local library or community center, log on the computer, do their reading assignment and academic exercises, and send their work back to the main computer which checks and evaluates work and provides scores and tutorial feedback. The system allows hundreds of people to improve themselves by developing one of the most vital skills for a successful life -- reading.

In addition to managing the Learning Link, AmeriCorps*VISTA members serve as liaisons, between volunteers and those learning how to read through one-on-one literacy tutoring. They have reached more than 300 people through this direct approach. The program also is partnered with Time Warner, Inc., which donates copies of publications, like Time and Sports Illustrated for Kids to 300 students each month.

At the Northeast Arkansas Council on Family Violence, AmeriCorps*VISTA members have established a comprehensive community volunteer program in a domestic violence shelter. In 1994 the program took in, sheltered, clothed, fed, and gave medical treatment and counseling to more than 3,500 victims of domestic violence and their children. This work would not have been possible without the work of AmeriCorps*VISTA. In the first year that AmeriCorps*VISTA members worked on the project, the number of families served more then doubled, from 481 to 1,115. AmeriCorps*VISTA members coordinate training for medical and health professionals throughout Arkansas on how to recognize and treat domestic violence victims. They have also designed a domestic violence training handbook to be distributed to physicians. AmeriCorps*VISTAs have increased funding for the organization from the United Way as well as through other community resources.

AmeriCorps*VISTA develops broad-based partnerships. The program's activities have been significantly expanded by the contributions of other public and private sector funds to support AmeriCorps*VISTA members at existing and new projects. In FY 1995, nearly $6 million of non-federal funding already has been committed to expand the numbers of AmeriCorps*VISTA members assigned to more than 30 projects throughout the country. We will continue to build community partnerships that depend upon active involvement of the private sector in our projects.

In these times of diminishing public resources, there is a greater need than ever before for AmeriCorps*VISTA to build the capacity of local non-profit organizations that serve those in need. Our presence enhances traditional volunteer efforts by leveraging financial resources and by recruiting, training and coordinating volunteers who will sustain the activities begun by AmeriCorps*VISTA members. We are accordingly requesting an increase in the FY 1996 budget of $12 million, including an additional $1 million for the Literacy Corps. The proposed FY 1996 budget would support:

-- An increase of 575 people for a total of 4,075 AmeriCorps*VISTA members serving on approximately 865 projects. The increase will focus on projects designed to generate income and investment in low-income communities such as microenterprise development, community design centers, community development credit unions, and creation of opportunities for job development and job placement.

-- An increase of 59 people in the Literacy Corps for a total of 459 on nearly 95 projects. Increased emphasis will be placed on intergenerational literacy efforts and on workplace literacy projects targeting the marginally employed.

--Legislatively mandated increases in Member support items, including subsistence allowance (set at 105 percent of the poverty index for a single individual) and health coverage costs.

Urban and rural communities across the country need the assistance that AmeriCorps*VISTA members provide. AmeriCorps*VISTA is a model for community capacity building and mobilization of local resources. AmeriCorps*VISTA will continue to forge effective partnerships and make a real contribution to strengthening our nation's communities.

PROGRAM ADMINISTRATION

The program administration budget of $34.5 million includes funding for staff at headquarters, in five cluster offices and in 47 state offices. The field staff is responsible for developing successful projects and for monitoring them. The field staff also provides technical assistance and serve as liaisons between the Corporation and the state commissions on national and community service, and with other state officials and local organizations. They are an integral part of a decentralized organization that can respond to specific needs of particular communities, states or regions of the country. This past year, the Corporation reorganized its field structure of nine regional offices into five clusters. The change represents not only a change in numbers of offices, but a change in philosophy that now involves increased cooperation and resource sharing among states within a cluster.

The program administration budget also includes funding for evaluation ($1.1 million) and for external affairs ($3.2 million), including public affairs, public liaison and congressional/intergovernmental affairs.

CONCLUSION

While the programs of the Domestic Volunteer Service Act share a proud history of accomplishments, they also have evolved to meet changing needs of society. They build partnerships, strengthen communities and provide a cost-effective way of getting things done.

Over the next decade AmeriCorps*VISTA and the Senior Corps will continue to meet the needs of communities by counseling at-risk children, helping senior citizens remain in their own homes, establishing community development credit unions and creating jobs. They will continue to listen to the needs and requests of communities, then pursue innovative programming to meet those needs in the areas of education, social needs, public safety and the environment.

AmeriCorps*VISTA and the National Senior Service Corps each play a vital role in the national service movement. Each program meets unique needs of people wanting to serve and of communities needing service. AmeriCorps*VISTA distinguishes itself by providing communities with the tools to improve themselves. The Senior Corps offers opportunities that utilize seniors' unique skills to involve them in community service.

Without any major additional investment in structure, we have in place the foundation to engage many more. Our nation cannot afford to squander the time, talent, experience, and resources of Americans willing to serve at this juncture in our history when so many social, educational, environmental and other needs remain urgent and unmet. In these times of tight budgets, supporting national service is a wise investment in addressing community needs.

AmeriCorps*VISTA Accomplishments in 1994

AmeriCorps*VISTA (Volunteers In Service To America) members work through local sponsoring organizations that serve low-income communities. They work as capacity builders so that local organizations are better able to meet the challenges their communities face. AmeriCorps*VISTAs mobilize resources, recruit and organize local volunteers, coordinate activities and develop local services.

This report presents estimates of the accomplishments of AmeriCorps*VISTAs at 674 projects across the country that were in operation throughout 1994. Westat administered a questionnaire to a stratified random sample of 136 projects that gathered information from local project directors on the accomplishments of the AmeriCorps*VISTAs and the AmeriCorps*VISTA projects during 1994. The numbers reported in this report represent annualized national estimates of AmeriCorps*VISTA projects in operation for at least one year based upon the results from the sample. The final report, which will describe the results from the entire universe of projects, will be available by fall 1995.

Education

In the area of education, an estimated 181,717 people benefitted from the work of AmeriCorps*VISTAs, and 3,528,485 hours of service were provided by AmeriCorps*VISTA recruited community volunteers. In 1994, AmeriCorps*VISTAs are estimated to have:

- Helped 1,555 adults earn General Equivalency Degrees (GEDs).
- Helped enroll 1,617 adults in adult basic education training or postsecondary education.
- Enrolled 43,671 people in adult literacy programs and 34,977 people in English as a Second Language (ESL) programs at worksites, corrections institutions, or other locations.
- Established or expanded 417 family literacy programs and enrolled 7,852 families in them.
- Trained 14,965 adult literacy tutors and 3,346 adult ESL tutors.
- Enabled 3,829 individuals to receive vocational education or training and 1,147 private sector partners to participate in vocational education programs.
- Enrolled 3,588 youth in dropout recovery programs, 1,535 youth in GED or alternative high school programs, and 5,821 youth in supplemental weekend or after-school literacy programs.

- Helped 11,062 children receive child care or day care services and established or expanded 150 child care/day care programs.

Public Safety

In the area of public safety, an estimated 330,797 people benefitted from the work of AmeriCorps*VISTAs, and 226,430 hours of service were provided by AmeriCorps*VISTA recruited community volunteers. In 1994, AmeriCorps*VISTAs are estimated to have:

- Established 25 citizens patrols and expanded or revitalized 5 other citizen patrols, freeing 18,482 hours of police officers' time.
- Generated 36,955 hours of citizen patrol coverage.
- Established or expanded 718 neighborhood watch programs.
- Generated 49,923 hours of volunteer community policing activities.
- Enabled 3,450 households to receive security audits.
- Counseled 536 gang members.
- Trained 10,921 individuals in delinquency and crime prevention.
- Trained 2,309 individuals in conflict mediation techniques.
- Served 982 individuals through victim assistance programs and counseled 866 rape victims.
- Helped 37,340 individuals participate in alcohol/drug abuse prevention programs and enabled 1,727 individuals to participate in alcohol/drug abuse treatment programs.

Human Needs

In the area of human needs, an estimated 2,309,944 people benefitted from the work of AmeriCorps*VISTAs, and 4,658,092 hours of service were provided by AmeriCorps*VISTA recruited community volunteers. In 1994, AmeriCorps*VISTAs are estimated to have:

- Immunized 13,570 children and 3,250 adults.
- Recruited 1,082 volunteer health professionals.
- Helped log 84,105 health clinic visits and provided medical care transportation 45,586 times.
- Provided health or nutrition education to 4,349 prenatal or nursing mothers.
- Provided 13,681 individuals with HIV/AIDS awareness materials and HIV/AIDS counseling to 1,907 people.
- Provided 11,523 individuals with mental health counseling.
- Provided teenage pregnancy prevention materials or presentations to 16,161 teens, and recruited and trained 587 teenage pregnancy prevention volunteers.
- Identified and placed 1,299 individuals with disabilities in independent living programs.
- Helped 212 individuals with disabilities obtain jobs.
- Assisted 1,556 families of individuals with disabilities through respite services.

Human Needs (Continued)

- Established or expanded 485 programs for senior citizens and supported 36,774 individuals in senior citizens programs.
- Matched 4,119 senior citizens with peer companions.
- Enabled 1,029 senior citizens to be served by adult day care programs, and helped 166,355 senior citizens in meal programs.
- Helped rehabilitate 1,474 low-income housing units and helped build 460 new houses.
- Generated $2,259,725 worth of donated materials for new housing construction.
- Enabled 1,450 low-income individuals or families to own homes.
- Assisted 745 low-income individuals or families to obtain housing loans.
- Placed 3,583 homeless individuals or families in permanent housing and 3,425 homeless individuals or families in transitional housing.
- Helped establish or expand 93 food banks, organized 691 food drives, and solicited and utilized 593 additional sources of food.
- Collected and distributed 3,283,159 tons of food to needy individuals and helped an estimated 235,529 individuals to receive food.
- Helped place 9,347 formerly jobless individuals in jobs at an estimated average hourly wage of $5.65 and referred 18,162 jobless persons to job opportunities.
- Convinced 2,793 businesses to hire unemployed individuals.
- Helped low-income people establish 81 new small businesses and expand 36 existing small businesses.
- Supported 102 businesses in incubator programs and helped 76 businesses participate in financial cooperatives.

Environment

In the area of the environment, an estimated 178,878 people benefitted from the work of AmeriCorps*VISTAs, and 22,106 hours of service were provided by AmeriCorps*VISTA recruited community volunteers. In 1994, AmeriCorps*VISTAs are estimated to have:

- Winterized or weatherized 746 housing units.
- Tested 1,597 sites for water quality and enabled 8,000 households to be served by new, expanded, or revitalized water systems.
- Made it possible for approximately 1,000 households to be served by new or expanded waste treatment systems.

Resource Mobilization

A key focus for AmeriCorps*VISTAs is the mobilization of resources for the sponsoring organization and the AmeriCorps*VISTA project. In 1994, AmeriCorps*VISTAs are estimated to have:

- Raised a total of $97,333,559 for their projects and sponsoring agencies -- $50,701,807 actual funds and $46,631,752 in-kind resources. In other words, they raised $3.13 in funds and in-kind resources ($1.63 in actual funds and $1.50 in-kind resources) for every dollar of AmeriCorps*VISTA funding in 1994, a three-to-one ratio of resources generated to dollars invested.

- Recruited community volunteers who volunteered a total of 8,435,113 hours of service.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

A ten percent cut in the 1996 budget request for AmeriCorps*VISTA and the VISTA Literacy Corps would reduce the funding by $6,000,000 for a total budget of $54,000,000. It would also mean 454 fewer new VISTAs and 97 fewer VISTA projects.

The reduction in the number of VISTAs requested would also severely impact the communities and individuals currently being served by AmeriCorps*VISTA. Based on the results of an accomplishments survey of AmeriCorps*VISTA that was recently conducted by WESTAT, an independent contractor with the Corporation for National Service, a 10 percent cut in the 1996 budget request would mean:

- VISTAs would generate 1.5 million fewer hours of community volunteer service;
- $8.9 million in non-federal funding would not be generated because fewer VISTAs would be involved in raising funds for non-profits;
- 2,600 fewer tutors would be trained, resulting in fewer people learning how to read;
- 6,450 fewer hours of citizen patrol coverage would be generated through VISTA's public safety projects; and
- 2,360 fewer children would be immunized.

A 10 percent cut in AmeriCorps*VISTA's 1996 budget request would impact real people served by real projects like the following three examples:

AmeriCorps*VISTAs working with the Butte Local Development Corporation in Montana, would not have been able to research data and prepare a marketing report that helped convince a multi-million dollar frozen food company to open a plant in Butte. Without VISTA's assistance, the residents of Butte would not have access to the 600 jobs that will be created when the plant opens, or to the 400 spin-off jobs that are expected to be added to the local economy.

Lynda Lee, a 30-year-old mother of four, would not have been able to own her own home without the work of AmeriCorps*VISTAs assigned to the Habitat for Humanity in Miami, Florida. Lee, now working as a receptionist for Habitat, said, "Never in my wildest dreams did I think that I would be able to get out of the (housing) projects."

Peter Waite, Executive Director of Laubach Literacy, conservatively estimates that at least 50,000 of the 120,000 literacy students served by Laubach Literacy each year are served as a direct result of our recruitment of both literacy tutors and students. He also estimates that over the course of the time that AmeriCorps*VISTA has worked with Laubach Literacy, at least 1/2 million literacy students would not have had meaningful literacy service (raising their reading level by 2-3 grades within the course of 12-18 months) had it not been for AmeriCorps*VISTA.

A: Impact of a 10 percent cut to the National Senior Service Corps' 1996 budget request

In the **Retired and Senior Volunteer Program,** a 10 percent reduction ($4,450,000) from the 1996 request would leave a total budget of $40,050,000. This level would support a total of 454,825 funded participants in 744 Corporation funded projects. It would mean 26,575 fewer participants and 43 fewer projects than the 1996 request. The reduction would mean:

- Approximately 385 fewer Programs of National Significance (PNS) grants support 10,775 fewer participants serving in an estimated 1,335 fewer new organizations.
- Existing projects would receive a 0.6% lower average increase in administrative cost adjustments to partially offset the effects of inflation over a number of years. Sec. 226 of the DVSA stipulates that the Corporation consider the impact of inflation on administrative costs and make necessary adjustments.
- Elimination of 43 planned new grants with 15,000 new participants.

The 43 projects that would potentially be eliminated include those like a recent project in Bismarck and Mandan, North Dakota. Had it not been for the Senior Corps' Summer of Safety program operated by the RSVP sponsor in Bismarck, 605 new neighborhood watch projects would not have been started nor 700 block captains trained. The Bismarck police department reported that as a result of this program, crime was reduced by as much as 85 percent. A major drug dealer was arrested, due to a tip-off from a newly formed watch area participant. The RSVP participants did in one summer what police estimate would have taken eight years. Bismarck is now declared a crime watch city. None of this would have happened without RSVP.

In the **Foster Grandparent Program**, a 10 percent reduction ($7,881,000) from the 1996 request would leave a total budget of $70,929,000. This level would support a total of 18,600 funded Foster Grandparent service years in 262 Corporation funded projects. It would mean 1,200 fewer service years and seven fewer projects than the 1996 request. The reduction would mean:

- Approximately 1,996 fewer new service years in PNS grants. (Note that the legislative requirement for 1/3 of new funds for PNS will not be met -- approximately 1/4 of new funds will be devoted to PNS.)
- No projects will receive administrative cost increases.
- Elimination of seven planned new grants with 400 new service years.
- An estimated 4,680 infants children and youth with special and exceptional needs will not be served.

One of those Foster Grandparents might have been another Ann Creevy. Without Ann Creevy, young Ryan might still be a statistic in a class for special needs children. It was Ms. Creevy who first saw the cigarette burns on Ryan's arms and immediately took action when she recognized these signs of abuse. During the course of working with Ryan, she identified Ryan's hearing loss as the reason for his inability to learn. Several years later Ryan is a thriving 10-year-old living in his new adoptive home, earning excellent grades in a regular classroom. Grandma Creevy serves with the Union/Snyder Pennsylvania Foster Grandparent Program. AARP awarded her a 1995 Legacy Award in recognition of her efforts on behalf of Ryan and the other children she serves.

In the **Senior Companion Program**, a 10 percent reduction ($4,309,000) from the 1996 request would leave $38,781,000. This level would support a total of 9,350 funded Senior Companion service years in 159 Corporation funded projects. This level would mean 1,162 fewer service years and 13 fewer projects than the 1996 request. The reduction would mean:

- Approximately 1,996 fewer new service years in PNS grants.
- Existing projects will receive an estimated average increase of 5.0% in administrative cost adjustments to partially offset the effects of inflation over a number of years.
- Elimination of seven new planned grants with 400 new service years.
- Approximately 3,950 adults will not be served.

People like Bobby might not receive the services of his Senior Companion. Virginia Ryder is a Senior Companion with Catholic Social Services in Columbus, Ohio, whose clients included Bobby, who might not be working for a living without her services. Bobby was a withdrawn, quiet man with developmental disabilities who had never had a job. Ms Ryder worked hard with him to gain his trust, teach him basic vocabulary, and then, as he progressed, taught him basic job skills. Bobby came out of his shell, started to talk, and now works four days a week packaging Ensure for Ross Labs. He was in his sixties when he received his first paycheck. Staff at the Senior Companion Project say that Virginia Ryder performed a miracle when she helped transform Bobby into the man he is today.

In the **Senior Demonstration Programs**, $1.8 million will support a total of eight grants. Training and technical assistance level will be approximately $280,000 rather than the $480,000 level originally requested.

CORPORATION FOR PUBLIC BROADCASTING

STATEMENT OF RICHARD W. CARLSON

I. Request for funds for Fiscal Year 1998

Thank you for the opportunity to submit testimony to support an appropriation for the Corporation for Public Broadcasting (CPB) for Fiscal Year 1998. CPB requests an appropriation for FY 1998 of $285.64 million, a $29 million reduction from the FY 1997 appropriated level of $315 million. Under this request, our funding for FY98 would equal the level of funding available in FY95.

This request follows, by less than a month, a presidential veto of legislation that would have reduced CPB's FY96 appropriation from $312 million to $275 million and reduced CPB's FY97 appropriation from $315 million to $260 million. We submit this testimony at a time in which the level of appropriation that CPB will receive in FY96 and FY97 is still very uncertain.

This request also comes at a time in which many in the Congress advocate reducing or eliminating direct federal funding for public broadcasting.

The prospect of declining federal funding, coupled with the necessity to reauthorize CPB in the near future, provides us with an historic opportunity to rethink and reform how we provide quality, non-commercial public broadcasting for the nation. We want to work with the Congress to restructure and improve the way we do business.

CPB's primary objective is to ensure that every American has the opportunity to choose public broadcasting. What matters to us is that public broadcasting continues long into the future. Why? Because communities across the country count on public broadcasting to provide quality service and programming that is local, educational, non-commercial, and available to everyone.

We are working to encourage efficiencies in station operations and streamline the system overall. We are also working to develop every available alternative funding source in order to increase public broadcasting's revenues and, to the greatest extent possible, offset decreasing federal appropriations. As good as our plans are for increasing efficiencies and generating more revenue internally, though, we have not found a way to absorb the loss of $285 million to the system.

Therefore, our appropriation request has two purposes. First, we seek a base appropriation to support public broadcasting and cover the costs we cannot make up internally. Second, we seek funding to be used to cover the costs of moving from the current system to one that emphasizes automation, downsizing and the development of new revenue streams.

II. Brief summary of how federal funds are allocated

It is CPB's responsibility, as directed by Congress, to use federally appropriated funds to support the production and distribution of programming, and the development of local education and community services. Traditionally, federal funds are used for four broad purposes:

(1) CPB provides *Station Support* in the form of Community Service Grants (CSGs) and similar grants to local public radio and television stations. Stations use CSGs to provide high-quality programming and educational services to virtually every American, regardless of location or income.

(2) CPB uses *Programming* funds to service diverse populations. CPB, consistent with its requirements under the law, will allocate a significant percentage of its programming funds to support the Independent Television Service (ITVS) and the five Minority Consortia to enhance programming by and for minorities and other traditionally under served populations.

(3) *System Support* funds contribute to the overall health and development of public telecommunications. These funds underwrite innovations in technology, such as closed captioning and descriptive video for the hearing and the visually impaired. The development of new audience research tools, with an emphasis on how to reach minority audiences; an annual competitive grant program to develop cost-effective, nonproduction projects focused on training and development, and other support for stations. System Support funds pay in full, on behalf of public television and radio stations, copyright royalties for the use of copyrighted music or other related work, and underwrites 50 percent of the net operating costs of the public television satellite interconnection system. System support funds will be a major tool in encouraging structural reform within public broadcasting. These funds will increase automation, reduce backroom overhead within station groups, and increase efficiency.

(4) *CPB operations*, as required by law, account for less than five percent of the total appropriation. CPB already reduced its administrative budget by nearly $1 million in the current fiscal year taking us far below the five percent ceiling on use of funds for administration. We spend one-third less on administration than other non-profits of similar size or larger. Although we have reduced the CPB staff by 20 percent, from 115 to 93 employees, we will continue to administer and audit several thousand grants and contracts, develop and nurture new programming and educational services, conduct research and evaluation, and provide executive and management leadership to a $1.8 billion industry. We believe that by doing more with less, we lead by example.

Stations and producers use the federal appropriation, which represents only 14 percent of our industry's total income, as the venture capital that generates more than $1.5 billion in non-federal funding. In recent years, every CPB dollar invested has reproduced itself more than five times. This high rate of return makes public broadcasting one of the most successful partnerships between the public and private sectors. It is little wonder that people rate public radio and TV broadcasting behind only military defense and law enforcement in providing the best value per dollar invested (Roper poll, March 1994). Tax dollars generate more than revenue. Tax dollars generate programming that is non-commercial and available to every citizen.

III. Major accomplishments in programming, outreach and system development

During the past year, CPB met significant challenges in education, technology, diversity, and access. With the funds available through station programming, system development, and education grants, CPB assisted public broadcasting in reaching new audiences, developing new ways to provide information to communities, working with teachers to enhance their skills, and bringing new, diverse faces and voices into the public broadcasting workforce.

A. Accomplishments in Education

National Campaign to Reduce Youth Violence -- CPB financed early development of a nationwide media offensive designed to combat youth violence. The campaign seeks to discourage violence among young people through education, creative use of broadcast programming, and community outreach.

PTV: The Ready To Learn Service on PBS --The Ready To Learn Service, launched in July of 1994, combines local public television stations, community organizations, and national producers to help parents use television to teach their children and prepare them for success in school. Featuring such programs as *Sesame Street*, *Storytime* (a new program), *Mr. Rogers' Neighborhood*, *Lamb Chop's Play-along*, and *Where in the World is Carmen Sandiego?*, 44 public television stations broadcast an average of 9 hours per day of entertaining, non-violent, educational PBS children's programming. Activity books, program guides, a magazine and other outreach materials help parents and other caregivers use television as a starting point for a broader teaching experience. In addition, CPB joins with First Book to give disadvantaged children the opportunity to read and own new books.

Sesame Street Preschool Educational Program (PEP) -- Using materials and resources developed by Children's Television Workshop (CTW), stations instruct parents and childcare providers on how to use *Sesame Street* most effectively. The project encourages caregivers to read to preschoolers and to improve story-reading and story-telling techniques.

National Teacher Training Institute -- Conceived in 1990, the Texaco/CPB/WNET National Teacher Training Institute (NTTI) trains teachers (95,000 to date) to integrate public television's instructional programming and technological resources with math and science instruction by developing video lesson plans coupled with hands-on science experiments.

Square One TV Math Talk -- This Children's Television Workshop project motivates mathematics teachers to consider new ways to teach math with an emphasis on parental involvement and teaching to girls, minorities and economically disadvantaged children.

PBS Mathline --PBS's Mathline Middle School Project combines computing and telecommunications technologies as a means of offering middle school mathematics teachers (grades 5-8) professional development training in the teaching of mathematics.

Postsecondary Education -- Schools of education play an important role in the nation's educational reform movement. CPB supported initiatives such as the American Indian Higher Education Consortium (AIHEC) project. The AIHEC plan identifies how the twenty-seven tribally-controlled stations and Bureau of Indian Affairs colleges can effectively achieve their educational mission through more effective use of telecommunications technologies.

B. Accomplishments in Technology and System Development

Community Wide Education & Information System (CWEIS) -- Under this program, a station(s) and its community partner(s) agree to build a local telecommunications infrastructure that provides free access to essential educational services (such as electronic math tutoring for elementary and secondary school children) on the information superhighway.

Development Task Force -- This program assists stations in crisis and contributes to improved planning, management, and fund raising for all stations. The principle beneficiaries of this initiative will continue to be the small-to medium-sized stations licensed to local school boards, municipal and state governments, and universities and colleges.

C. Accomplishments in Encouraging Diversity

Minority Consortia -- CPB supports five Minority Consortia representing American minority groups: the Native American Public Broadcasting Consortium, the National Latino Communication Center, the National Black Programming Consortium, the National Asian American Telecommunications Association, and the Pacific Islanders in Communications. The consortia ensure that public broadcasting's programming contain multicultural perspectives.

Diversity 2000 -- Works to ensure workforce diversity within public broadcasting itself.

NPR's *Wade In The Water: African American Sacred Music Traditions* -- Middle and senior high schools used this multimedia presentation, which consists of a twenty-six part series of broadcast-quality tapes, and a curriculum and teacher's guide. Focusing on the creation, practice, evolution, and influence of African American sacred music traditions, the series provided a framework for understanding the development of Black America during the 19th and 20th centuries.

Latino USA -- *Latino USA* is a unique, high quality, weekly English-language radio journal of news and culture that airs on 200 stations including the top 10 U.S. Latino markets.

American Indian Radio on Satellite (AIROS) -- This project represents the first time that the nation's two dozen Native American public radio stations and the different reservations on which they reside will be bound together electronically. AIROS offers an unprecedented opportunity for sharing and, thus, preserving the distinct cultures and religions of Native Americans.

IV. A realistic plan for the future

We are proud of these accomplishments and our effectiveness in carrying out Congress' mandate. At the same time, we are well aware of the desire of Congress to sharply reduce CPB's appropriation. At Congress' request, we developed a detailed plan to generate savings and revenue within the public broadcasting system -- designed in part to offset probable future reductions or elimination of tax dollars.

We started with a set of principles that would guide our efforts. First, that public broadcasting should remain fundamentally a local institution. Second, that public broadcasting should be available to all Americans regardless of age or ability to pay. Third, that a basic goal of public broadcasting is to provide lifelong education. And fourth, to provide non-commercial programming that is responsible and independent. "Common Sense for the Future," the plan we submitted to Congress in May (see Appendix), builds on these principles, by initiating ways to increase efficiency in our operations and raise revenues to offset reduced appropriations.

Public broadcasting strives to reduce its costs and its dependency on tax dollars, and increase its efficiency, by making the system more efficient. Our analysis, provided by the financial services firm of Lehman Brothers, shows that significant savings can be achieved by encouraging stations to merge in some cases, or, in other cases, consolidate backroom operations and other functions, and increase the use of automation technologies where appropriate. In close consultation with the public broadcasting community, CPB structured its grant programs to provide incentives to public television and radio to initiate these efficiencies.

CPB also explored new sources of non-federal revenue. We asked Lehman Brothers to project the revenue that could be generated from enhanced underwriting, ancillary income and excess transponder leasing. When Lehman Brothers combined these sources of income, the amounts raised did not completely offset the current federal appropriation. Even when savings from increased efficiencies are added to new revenue sources, Lehman Brothers projects that there are still not sufficient funds to replace the federal appropriation in full. In fact, Lehman Brothers projects that by the year 2000, public broadcasting could, at best, raise and save a total of $172.2 million from the methods examined. These are projections which are still to be tested in real experience.

Increased efficiency will likely translate into fewer jobs and local operations.
On the television side, we propose having only one CPB grantee television station per market. We will require radio stations to meet certain audience standards in order to qualify for a grant. At the same time, CPB maintains its commitment to rural and minority service, which will ensure that small stations and unserved and under served areas receive support. CPB believes that arranging new ways to distribute grants may be part of the answer.

There has been a great deal of discussion about the possibility of raising revenues for public broadcasting from ATV spectrum (the so-called "second channel") sales or leases. ATV provides some exciting possibilities. However, the technological, political and legislative unknowns are too great at this time to make any reliable estimates of the potential value of excess ATV spectrum sales or leases. If, as technology moves forward, public broadcasters are in a position to take advantage of new markets and financial opportunities related to ATV, the reliance on a continued appropriation could correspondingly be reduced.

Making our "Common Sense for the Future" plan work will be a challenge for both CPB and the system we serve. CPB is committed to working with the stations and the other national organizations and Congress to fashion a future that will maximize efficiencies and put our resources to the best use possible.

Thank you once again for the opportunity to submit testimony in support of the Corporation for Public Broadcasting. I believe that we at CPB have made a good faith effort to begin a change in public broadcasting. Congress has invested billions of taxpayer dollars over the past twenty-five years to help build the public broadcasting system. Public broadcasters, the members of this Committee and Congress as a whole are reexamining ways to more efficiently and creatively do what public broadcasting does well. This process is underway at CPB and continues.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

APPENDIX A

Total Appropriation	**$285,640,000**	**$256,500,000**	**-$29,140,000**	**-10%**
Television CSG Allocation	143,597,502	128,412,496	-15,185,006	-11%
TV Programming	51,615,834	46,554,164	-5,061,670	-10%
Radio CSG Allocation	44,674,778	39,950,554	-4,724,224	-11%
Radio NPPAG Allocation	15,616,356	14,064,110	-1,552,246	-10%
Radio Programming	4,779,978	4,307,555	-472,423	-10%
General System Support	17,138,400	15,390,000	-1,748,400	-10%
CPB Operations	13,217,152	12,821,127	-396,025	-3%
Effect on Individual Station Grants				
Television (CSG)				
Small (89 grantees)[1]	395,409	355,012	-40,397	-10%
Medium (54 grantees)	648,426	581,936	-66,491	-10%
Large (57 grantees)	1,361,628	1,221,585	-140,043	-10%
Radio (CSG & NPPAG)				
Small (104 grantees)	78,508	69,863	-8,646	-11%
Medium (105 grantees)	141,944	125,820	-16,124	-11%
Large (134 grantees)	238,768	211,229	-27,540	-12%

1. A grantee may operate more than a single station. Collectively, television grantees operate a total of 351 stations, and radio grantees operate 629 stations.

The table above illustrates the effect of an across-the-board ten percent reduction in the CPB appropriation from the 1995 level of $285 million. The analysis assumes no change in current rules for eligibility or distribution of funds to stations, and therefore, no increase in the number of eligible stations.

The allocation of funds appropriated for CPB is determined by statute, 6 percent is set aside for general system support for radio and television, and CPB operations are capped at 5 percent. Of the remainder 25 percent is allocated to public radio and 75 percent to public television.

70 percent of the public radio allocation is for station grants to support general operations without restriction and for signal extension to unserved markets

(CSGs). Another 23 percent is for grants to support acquisition of national programming (NPPAGs), and the remainder goes to the radio program fund.

Of the public television allocation 75 percent is distributed directly to station grantees to support general operations (CSGs), and the balance goes to support programming available to all public television stations.

APPENDIX B

COMMON SENSE FOR THE FUTURE

In March, the chairmen of the House Telecommunications Subcommittee and the House Appropriations Subcommittee on Labor/HHS directed the Corporation for Public Broadcasting to develop proposals to achieve independence from the annual appropriation. To understand the magnitude of this challenge, it is important to keep in mind the fragile financial status of the public broadcasting system.
The vast majority of support for public broadcasting -- over 86 percent of total revenues -- comes from non-federal sources, including individual subscribers, businesses, foundations, state and local governments, colleges and universities.
The CPB funding -- which represents about 14 percent of total revenues for the industry -- is seed money for the successful public-private partnership that historically generates five to six dollars in non-federal support for every dollar of federal money.

CPB's challenge, then, was to devise a plan that would: preserve the mission of public broadcasting; realize significant efficiencies; generate new revenue to replace to the greatest extent possible the current appropriation; and recommend to the Congress realistic funding options for ensuring the continued viability of important programs and services. The approach was service-based rather than institutional; that is, a primary emphasis was placed on preserving and strengthening the products and programs, and not necessarily the service providers.

The process was as inclusive and as thorough as could be done in such a limited time. CPB engaged the respected investment banking firm of Lehman Brothers to analyze a variety of potential new sources of revenue for public broadcasting based on assumptions developed with CPB and other public broadcasting entities.
The major national organizations of public broadcasting -- the Public Broadcasting Service, National Public Radio, Public Radio International, the Association of America's Public Television Stations, and the National Federation of Community Broadcasters -- were also consulted in an effort to create an industry-wide consensus. In addition, CPB convened working groups of public radio and television managers to help develop incentives to eliminate administrative duplication at stations and service duplication.

This is not meant to be a definitive blueprint. Rather, we see this as the starting point for a productive dialogue with the Congress from which the public will benefit. Many of these ideas would require statutory changes; others, amendments to FCC policies or administrative codes. Many other organizations and individuals in the public and private sectors will want to have input as well. These proposals are intended as a starting point for the dialogue -- a common sense for the future.

CORE PRINCIPLES OF PUBLIC BROADCASTING

From the beginning of the planning process, CPB was guided by the principles of the Public Broadcasting Act of 1967 that reflect the essential public service nature of this system and include the following elements:

- **Public broadcasting is fundamentally a local institution, rooted in the social, educational and cultural fabric of hundreds of communities across the country;**

- **The programs and services of public broadcasting must be available to all Americans, regardless of their location or ability to pay;**
- **Lifelong education is the founding goal of public broadcasting and must be preserved; and**
- **The noncommercial character of public broadcasting, as well as its editorial integrity and independence, are critical to its public service mission.**

These principles have been reaffirmed by bipartisan majorities in Congress, by overwhelming public support, and by the activities of the public broadcasting system. The proposals in this report seek to ensure that the public telecommunications system of the future remains faithful to its essential mission.

SUMMARY OF THE PROPOSAL

This proposal details ways to reduce costs in the public broadcasting system, including reforms specific to public television and radio. It describes and analyzes new non-federal sources of revenues. Finally, it addresses the remaining federal role. One result will be a series of difficult choices.

I. REDUCING COSTS

Public broadcasting is not exempt from the need of all modern institutions to conduct regular and rigorous self-examination. CPB is prepared to make difficult choices in the face of limited resources. The economics are inescapable. The desire of both Congress and the Administration to reduce or reinvent government reflects a legitimate interest in ensuring that publicly funded organizations operate more efficiently and effectively.

CPB is committed to concrete measures that will address overlapping signals and duplication of service, insulate smaller budget stations from the full burden of reduction in federal funds, and assure continuing support for minority and rural services. CPB is now engaged in a consultation with the public television and public radio licensees to craft specific mechanisms that will achieve these objectives.

If fully implemented, the following proposals would lead to some of the most far reaching changes in public broadcasting's operations and financing since the creation of the current system 27 years ago. They would involve restructuring of programs, people, and assets. Jobs would be eliminated. Stations would be consolidated. Some might go off the air, and fewer communities would enjoy the distinctive local services that have come to characterize public broadcasting. We are presenting, however, a course of action that adjusts to new fiscal realities and works to preserve, to the greatest extent possible, the essential integrity and mission of public broadcasting, including high-quality national programming.

This plan builds on CPB efforts already underway to encourage system consolidation, joint operating efforts, and adoption of new technologies. It also responds to congressional concerns about duplication and overlap.

The specific proposals can be divided into three categories:

A. SYSTEM-WIDE COST REDUCTIONS

1. **A portion of federal funding will be directed toward encouraging and supporting cost-reduction efforts on the local level.** These could include mergers and consolidations of existing licensees; joint operating agreements; greater use of automation and new technologies; and general operating efficiencies. While financially attractive, there are legal, regulatory and political consequences:

- Neither CPB nor any other public broadcasting organization has the authority to require cooperative efforts. Leverage comes from the ability to provide incentives or disincentives to stations through the grant process;

- Mergers and consolidations of licensees would require FCC approval;

- The Communications Act prohibits license transfers that would substantially decrease competition or otherwise would not be in the public interest; and

- Licensees representing a multiplicity of institutions (such as community groups, universities, school districts, municipalities, and state governments) would be subject to the various laws and policies that govern their operations. No uniform agreement or code can be assured.

2. **CPB grant funds will be redistributed to ensure that smaller stations are insulated from the immediate impact of funding cuts.** While larger licensees will bear a greater burden of the reductions, they will not be graduated from CPB grants simply because of their larger size or the fact that they rely on the federal funds for a smaller percentage of their income. CPB's goal will be to reward, not discourage, efforts toward self-sufficiency and to encourage economies of scale that often result in larger organizations.

3. **CPB and the other organizations representing public broadcasting (PBS, NPR, APTS, PRI, and NFCB) will streamline their operations and become more entrepreneurial** as CPB funds are increasingly directed toward achieving efficiencies at the stations and strengthening market mechanisms in the industry.

B. PUBLIC TELEVISION COST REDUCTIONS

1. **In each market, CPB will provide funding sufficient for** **one** station.

2. To ensure universal service, **stations that are not financially viable without federal support will receive transition funding** to affiliate with a larger, more secure station.

3. **In communities that are not able to support a full-service station,** CPB will provide funding to ensure that **a public television signal can be imported** from a neighboring region.

4. CPB-supported stations will be required to spend an amount greater than their grant on shared programs and services.

C. PUBLIC RADIO COST REDUCTIONS

1. CPB grants will be limited to stations that provide the greatest level of listener service in a market. **An overlapping station will receive funding only where it meets strict requirements for audience size, service, and diversity of programming.**

2. **New stations will receive CPB grants only if they serve new areas or audiences** not currently served by public radio.

3. Funding will continue to be directed to public radio stations that provide the **sole broadcast service** in their communities, or specific service to **rural and minority communities.**

Net cost reductions from television mergers and consolidations
Year 2000 ($ millions)

	High estimate	Low estimate
Cumulative percentage of stations merged	50%	25%
Cost Reductions (1)	$11,321	$5,661
Cumulative cost reductions	$37,738	$18,869
Less severance	($3,128)	($1,564)
Cumulative net cost reductions from mergers (2)	$34,610	$17,305

1. Eliminated expenses less anticipated lost revenue for stations merged.
2. Cumulative net cost reductions less severance paid.
3. Source: Lehman Brothers analysis.

II. NEW SOURCES OF REVENUE

The results of analysis performed by Lehman Brothers and others who have studied potential new streams of revenue lead public broadcasters to one inescapable conclusion: **today there is no combination of new income sources that can fully replace the annual appropriation.**

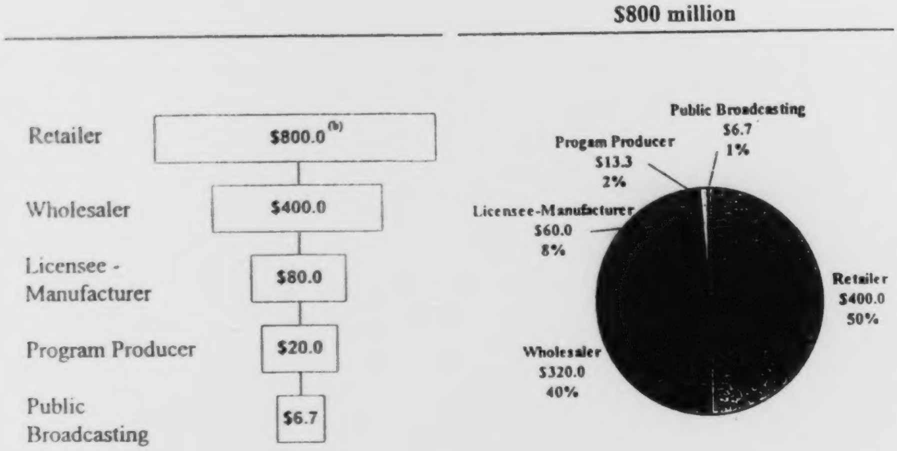
The Lehman Brothers analysis looked at possible income streams over a five year period. The projections rely on numerous assumptions developed by CPB and other public broadcasting entities. They have not been empirically tested or independently verified. Like all projections, they are by their nature estimates that may or may not prove to be accurate. The revenue-producing proposals are also consistent with the essential character of public broadcasting. It was assumed, for the purpose of analysis, that programs would continue to be aired without interruption, and national coverage would be preserved.

A. ANCILLARY REVENUE

Ancillary revenue from programs -- the so-called "Barney" solution -- has been portrayed in the press as an easy font of immediate cash for public broadcasting. In fact, absent significant new capital for investment in programming, such arrangements can **only be expected to bring in an additional $5 million a year.**

This is because few public television programs make money for their producers or funders. Even though public broadcasting has generally been able to claim as much as 35 percent of the ancillary rights for as little as a ten percent investment, that translates **into one percent of the retail cost of products.** As the charts below illustrate, **characters or products that generate $800 million in sales will only bring back $20 million to the program producer, and of that only $6.7 million will flow to public broadcasting.** The way to increase the return is to significantly increase the ownership of programs. That would require additional hundreds of millions of dollars that are not now available to CPB or public broadcasting.

Income Potential from Ancillary Revenues
Hypothetical Illustration (a)
($ in Millions)



(a) Based on NERA study.
(b) Estimated gross revenues from the sale of Children's Television Workshop character-related merchandise

B. SPECTRUM SALES OR SWAPS

A careful analysis determined that the sale of existing non-commercial broadcast spectrum, or the swap of VHF for UHF frequencies are not viable options. Neither CPB nor any other national organization holds broadcast licenses, nor can they compel the sale, lease, or swap of spectrum or channel allocations that are now held by local public broadcasting authorities throughout the country. Both would require significant changes to current legislation and FCC regulations. Finally, even if Congress were to authorize the sale, lease, or swap of any frequency, there is no mechanism to aggregate and rationally distribute the proceeds, although some individual stations might benefit.

C. ADVERTISING

In order to minimize the negative impact advertising would have on public broadcasting services, the Lehman Brothers analysis uses assumptions that limit the location, frequency, and length of advertising spots. Based on this model, **advertising, at least in the traditional sense, was found to be a net money-loser** because of the offsetting effects of taxes, increased production costs, commissions, and lost contributors. It also violates one of the core principles outlined above (i.e. the non-commercial character of public broadcasting). However, CPB does support conducting a carefully controlled experiment that would test these assumptions.

D. ENHANCED UNDERWRITING

Enhanced underwriting can be projected to provide incremental gains in revenue. The Lehman Brothers analysis showed a potential increase of $8.2 million for television, and between $0.5 million and $2.4 million for radio in the first year. By 2000, enhanced underwriting for television and radio could bring in as much as $64 million. This would require some modification to the current FCC guidelines, but would not alter the noncommercial nature of public broadcasting. Changes in underwriting practices will have negative impacts on both program underwriting and membership support. CPB research has consistently shown a high degree of public resistance to the inclusion of overtly commercial messages on public radio or public television.

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Comparison of enhanced underwriting vs. advertising
Year 2000
($ millions)

	Enhanced Underwriting High Estimate	Enhanced Underwriting Low Estimate	Advertising
Television			
Revenues less direct costs	$134.4	$91.8	$163.5
Taxes	$0	$0	$163.5
Increased production costs	$0	$0	($65.4)
Loss of current underwriting	($93.1)	($60.9)	($41.2)
Loss of membership revenue	($5.7)	($5.7)	($83.6)
Incremental income	$35.6	$25.1	($14.4)
Radio			
Revenues less direct costs	$57.0	$25.8	$73.2
Taxes	$0	$0	($29.3)
Increased production costs	$0	$0	($9.5)
Loss of current underwriting	($27.8)	($16.1)	($25.0)
Loss of membership revenue	$0	$0	($63.5)
Incremental income	$29.1	$9.7	($54.2)

1. Source: Lehman Brothers analysis.

E. TRANSPONDER LEASING

Through digital compression, satellite capacity is expected to increase at some future date. This would create a potential opportunity to lease additional transponder space. The Lehman Brothers analysis projects a possible income stream for public television of about $2 million in 1996 growing to about $7 million by 2000. The leasing of any excess capacity, however, will diminish the ability of public television to serve its fundamental educational mission, and would potentially displace other members of the educational community that utilize the transponder capacity of public broadcasting for distance learning, instructional television, and educational outreach.

III. SUMMARY OF COST REDUCTIONS AND NEW REVENUE SOURCES

Based on Lehman Brothers analyses, new on-going sources of revenue from enhanced underwriting, ancillary income, and transponder leasing might generate $11.1 million in income starting in 1996, and by 2000 this might grow to $76.7 million. In the most aggressive scenario analyzed by Lehman Brothers, public broadcasting could expect to reduce its annual costs by $96 million over five years. While substantial, these revenues alone are insufficient to replace the current federal appropriation. Continued public support is essential.

Summary
Potential sources of cost reduction and revenue
High estimate ($ millions)

	1996	1997	1998	1999	2000
Cost Reductions					
1. Mergers and consolidations	$0	$5.5	$13.0	$23.3	$34.6
2. Automation	$3.7	$15.8	$32.1	$48.3	$60.9
Subtotal	$3.7	$21.2	$45.1	$71.6	$95.6

Summary
Potential sources of cost reduction and revenue
High estimate ($ millions)

	1996	1997	1998	1999	2000
New Revenue Sources					
1. Radio enhanced underwriting	$0.5	$6.2	$11.8	$20.4	$29.1
2. TV enhanced underwriting	$8.2	$17.1	$25.3	$31.9	$35.6
3. Satellite transponder leasing	$1.9	$4.6	$5.2	$6.8	$6.8
4. Ancillary income	$0.5	$2.7	$4.9	$5.1	$5.2
Subtotal	$11.1	$30.6	$47.2	$64.2	$76.7
Total	$14.8	$51.8	$92.2	$135.8	$172.2

1. Source: Lehman Brothers analysis.

Summary
Potential sources of cost reduction and revenue
Low estimate ($ millions)

	1996	1997	1998	1999	2000
Cost Reductions					
1. Mergers and consolidations	$0	$2.7	$6.5	$11.6	$17.3
2. Automation	$2.8	$11.8	$24.0	$36.3	$45.7
Subtotal	$2.8	$14.6	$30.5	$47.9	$63.0
New Revenue Sources					
1. Radio enhanced underwriting	$2.4	$6.2	$7.5	$9.4	$9.7
2. TV enhanced underwriting	$5.4	$12.6	$18.5	$22.6	$25.1
3. Satellite transponder leasing	$1.9	$4.6	$5.2	$6.8	$6.8
4. Ancillary income	$0.5	$2.7	$4.9	$5.1	$5.2
Subtotal	$10.2	$26.1	$36.1	$43.9	$46.8
Total	$13.0	$40.7	$66.6	$91.8	$109.8

1. Source: Lehman Brothers analysis.

IV. MAKING THE TRANSITION

A. ANNUAL APPROPRIATION

The combination of cost reductions and revenue increases described here could not compensate for a complete loss of the federal appropriation.

In the absence of a reliable alternative, a continued federal appropriation is necessary. That appropriation would have two components:

1. A base appropriation to provide long term support for those programs and services stations provide which at this time have no realistic prospect of attracting sufficient external funding to become self-supporting (e.g., educational, children's, and outreach programs and services).

2. A transitional fund which would enable public broadcasters to implement efficiencies and launch new revenue streams. This amount would be phased out over time. It would be used for costs related to mergers, consolidations or automation, such

as purchases of new equipment, severance pay for employees, and training in underwriting sales. As the charts above illustrate, assuming an appropriation frozen at the FY 95 level of $285.6 million, public broadcasting would have available between $13.0 and $14.8 million in fiscal year 1996 to carry through the restructuring outlined in this plan. In fiscal year 1997, when restructuring is fully underway between $40.7 to $51.8 million would be available.

B. ALTERNATIVE SOURCES OF PUBLIC SUPPORT: ATV SPECTRUM AND TRUST FUND

The leaders of the 104th Congress have reaffirmed their support for the value of public telecommunications. They have said, too, that it must be self-financing and that they are prepared to work with the public broadcasting industry to achieve that goal. This presents us with the opportunity to consider innovative alternatives.

1. ATV Spectrum

Congress has long recognized that spectrum is a public resource, and a portion of the spectrum is explicitly reserved for noncommercial and educational purposes. In keeping with this public service goal, we considered the opportunities presented by the future availability of ATV spectrum, including the possibility of realizing fees on its use, transfer, or licensing.

Should Congress or the FCC so direct, the sale or lease of an additional 6 MHz of spectrum allocated for ATV could represent a substantial revenue opportunity for public broadcasters. But any value that might be obtained will depend on widespread public adoption of digital television and other advanced technologies. **The most reliable estimates by Congress and the FCC indicate this may be ten years or more in the future.**

Sale or lease of this spectrum would come with a high price for public broadcasters if adoption of high definition television (HDTV) is widespread. It is unlikely there exists sufficient spectrum for both HDTV transmission and other uses. The sale or lease of ATV spectrum may leave public television without the spectrum to offer HDTV broadcasts to the public when digital ATV becomes fully established.

2. Trust Fund

Although commercial use of excess ATV spectrum does not appear to have any clear potential for revenue generation in the immediate term, public broadcasting welcomes the opportunity to work with the Congress to identify and establish a reliable long-term financing mechanism.

The creation of a fully private trust fund was seriously debated when Congress first authorized public broadcasting nearly thirty years ago. It was rejected at the time, but the rationale remains compelling: establish a trust, the income from which will assure that high quality educational and informational programs and services are available free of charge for all Americans.

We recommend that Congress authorize such a trust.

We have examined a number of options to capitalize a trust fund from non-appropriated sources. Several may merit further consideration. We look forward to exploring these and any other alternatives Congress may suggest to make such a trust fund viable.

C. ADDITIONAL MEASURES

In conducting this review, public broadcasters identified a number of additional measures Congress could consider which would further significantly public broadcasting's efforts to achieve self-sufficiency. These include such actions as:

Giving public broadcasting relief from the Unrelated Business Income Tax (UBIT) and preserving its tax-exempt status when revenues are reinvested in public telecommunications services.

Dissolving restrictions embodied in federal government liens on Public Telecommunications Facilities Program (PTFP) funded equipment and facilities.

Requesting favorable treatment in non-profit postal regulations pertaining catalog mailings and sales.

Extending favorable copyright provisions to include the use of copyrighted works in new media and provide for additional educational uses of public broadcasting programs.

Encouraging government agencies, schools, libraries and other educational institutions to form partnerships with public broadcasters for the purpose of serving community, informational, cultural and educational needs.

FEDERAL MEDIATION AND CONCILIATION SERVICE

STATEMENT OF JOHN CALHOUN WELLS, DIRECTOR

Mr. Chairman and Members of the Subcommittee:

It is my pleasure to present to you the Fiscal Year 1996 appropriations request for the Federal Mediation and Conciliation Service. I would like to describe briefly the FMCS fiscal year 1996 budget request, identify our recent major achievements, and predict what we hope to accomplish in the near future.

The Federal Mediation and Conciliation Service (FMCS) was created by Congress as an independent agency in 1947 by enactment of the Taft-Hartley Act which directed FMCS to provide mediation, conciliation and arbitration services to labor and management. Since then, FMCS's charter has been expanded by a variety of subsequent statutory enactments, making it our nation's premier body for resolution of labor-management disputes and the key governmental body providing alternative dispute resolution assistance to federal and other governmental agencies. Today, FMCS provides mediation services-- including dispute and preventive mediation--arbitration services, labor-management cooperation grants, and alternative dispute resolution assistance to our customers – labor organizations, businesses, and government agencies. Critical to an understanding of our agency's work is that FMCS provides direct assistance to these organizations on a strictly voluntary basis. As an independent, neutral agency, it performs no regulatory functions.

I am also pleased to advise you that FMCS reinvention or reengineering initiatives are substantially underway, having begun within 30 days after my appointment as Director. As a first step, the Agency engaged in a strategic planning process to consider how to prepare itself to deliver high quality customer-driven services into the 21st century.

Dramatic changes are taking place in the workplaces of this nation. There is increasing use of collaborative processes and interest in innovative, high performance strategies. In the society at large, there is a growing interest in learning and using conflict resolution techniques. FMCS has an important contribution to make to both the labor relations and conflict resolution systems. But, to do that FMCS must be an organization which strives for continuous improvement. We are committed to implementing a strategic action plan to assure that we will be able to provide mediators with the requisite knowledge, skills and abilities to respond to our customers' needs, both today and in the days ahead.

FMCS MISSION

FMCS was first established in 1947 to assist management and labor in settling their disputes through conciliation, mediation and voluntary arbitration. While work stoppages have declined in recent years, mediators have continued to be involved in increasingly complex, contentious disputes. Pattern bargaining, once the norm in most major industries, has continued to diminish and in many cases insistence on, or resistance to, the pattern has actually caused and prolonged strikes, creating the need for negotiations on a company-by-company basis. The leading causes for today's disputes are job security, health care costs, economic issues, and working conditions. Other issues that arise in negotiations today include productivity, product quality, joint problem-solving procedures, retirement benefits, occupational safety and health, and quality of work life.

Also since 1947 FMCS's charter has been expanded by several subsequent statutory enactments. In 1978 Congress passed the Labor-Management Cooperation Act which expanded the mediation activities engaged in by the Agency by authorizing FMCS to "encourage and support" joint labor-management committees designed "to improve labor management relationships, job security and organizational effectiveness" [section 203(e)], for the purpose of "enhancing economic development or involving workers in decisions affecting their jobs including improving communication with respect to subjects of mutual interest and concern." [section 205A(a)(1).] Through this activity mediators work with management and labor to address such issues as customer service, economic competitiveness, productivity, employment security.

Additionally, drawing on its conflict resolution skills, FMCS has helped in resolution of disputes outside of the labor-management arena ever since the Director was asked by Congress to mediate a land dispute between the Navajo and Hopi Tribes in the 1970s. In 1990, the enactment of two laws expanded FMCS work in alterative dispute resolution (ADR). The Administrative Dispute Resolution Act requires that each federal

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agency develop a policy for institutionalizing mediation and other forms of conflict resolution as an alternative to costly litigation and provide ADR training to appropriate staff. The Negotiated Rulemaking Act of 1990 encourages all agencies to use the regulatory negotiations process in developing agency rules.

Both Acts authorize FMCS to provide consultation, training, systems design and third party neutral services to all federal agencies. Through this work, FMCS helps to reduce government-wide litigation costs and improve government operations, by facilitating regulatory procedures and relationships with the public. FMCS work gives America's citizens a voice in the regulatory process, making them partners with government in finding solutions to the problems which affect their lives.

Specific FMCS program activities and objectives include:

Dispute Mediation

Federal mediators have been, and will continue to be, active in labor-management negotiations throughout the United States. Our 195 mediators, employed in 79 field offices, have almost immediate access to the collective bargaining community. Our work encompasses small, medium, and large employers in all industries except the railroad and airline industries.

FMCS was directly involved in 381 of the 476 work stoppages (80 percent) which ended during the last year. A notable success was FMCS assistance in resolving a several week strike by the Teamsters Union against the trucking industry, involving more than 70,000 workers nationwide. A result of those negotiations was the parties' agreement to launch a joint labor-industry council to address the economic competitiveness problems of the industry. Another notable success, was FMCS assistance in resolving a four month strike at the Kennedy Space Center, the second longest strike in NASA's history.

Not as successful, but certainly visible, were FMCS efforts last summer in the baseball strike, bringing together twelve representatives of major league baseball owners and twenty-five representatives of the players association to the bargaining table. When negotiations went nowhere, and the season was cancelled, I recommended the appointment of an independent mediator to conserve public resources. And, in the continuing dispute between the United Auto Workers and Caterpillar, Inc., where a strike involving about 14,000 workers has been ongoing for a year at eight plants in Illinois, Pennsylvania, and Colorado, formal negotiations have taken place under FMCS auspices.

Under the provisions of the 1979 Postal Reorganization Act, FMCS actively mediated issues in the contract dispute between the Postal Service and its largest employee union, the American Postal Workers Union. We have appointed a private arbitrator to resolve outstanding issues. We also referred a private fact finder to make recommendations for resolving the current dispute between the Postal Service and the National Association of Letter Carriers, the second largest postal union. Subsequently, we named an arbitrator to resolve the dispute. These are the largest collective bargaining negotiations underway in the nation today, involving about 600,000 postal employees.

The livelihoods of thousands of American working people are at stake in many of these negotiations. Besides the obvious illustrations, like Caterpillar, where thousands of workers are on strike, there are others. To cite just one, Donnelley Printing Company, one of the largest printing companies in the U.S., announced in October 1994 that it would close its Des Moines, Iowa plant employing over 1000 employees. An FMCS mediator met with the company and union leaders 17 times, over hundreds of hours, and in December they approved an agreement under which the plant will stay open. The mediator also served, at the request of the Governor, on a Task Force set up to review the situation.

Over the last seven years, 85 per cent of the negotiations which FMCS has actively mediated have resulted in agreements. By contrast, agreements are reached in 75.6 percent of those contract negotiations without FMCS mediation. The positive contribution of our mediators is evident, especially since mediation is rarely sought unless the negotiations are difficult.

Just this week, after more than four and a half months of bargaining, with the assistance of an FMCS mediator, Teamsters Joint Council 25 in Chicago and the Mid-America Regional Bargaining Association reached a new 62 month agreement covering about 1500 construction truck drivers on commercial and heavy/highway projects. As reported by the Daily Labor Report (6/26/95), the secretary of the employer bargaining group, stated that had the mediator not been present "things may have gotten out of hand." He reported that employers became so frustrated at one point during the negotiations that "serious consideration was given to disbanding the bargaining unit."

FMCS also assists states and localities where there is no viable mediation service and actively mediates public sector disputes or assists in training state mediators. We are active in more than 35 states, assisting in training, mediating and dispute resolution.

In Fiscal Year 1996, there will be contracts expiring and negotiations occurring in the aerospace, agricultural implement, retail sales, apparel, oil and petrochemicals, defense contracting, shipping, shipbuilding, utilities, construction, health care, newspaper, telecommunications and information, electronic manufacturing, schools, and insurance industries. FMCS expects to be actively involved in about 6,000 of these mediation cases.

Preventive Mediation

Preventive mediation is an essential method of assisting management and labor in minimizing or managing conflict and transforming adversarial environments into more collaborative ones, helping to create profitable and economically secure enterprises. FMCS provides a variety of specific preventive mediation programs which introduce the parties to more effective techniques and skills in bargaining, communications, joint problem solving and innovative conflict resolution. Mediators provide facilitation and training in collaborative labor-management processes designed to improve labor-management relationships, economic competitiveness, workplace performance, profitability and employment security. Federal mediators will conduct approximately 2,200 preventive mediation cases in Fiscal Year 1996.

To give you a few examples of this work, FMCS mediators are assisting Nabisco, Inc. and the Bakery, Confectionery, and Tobacco Workers Union with developing their participative work agreement and partnership which is committed to maximizing company and employee competitiveness. Last November, following settlement of a four month strike in Wyoming, an FMCS mediation team took representatives from General Chemical Corporation and the United Steelworkers through a three day Relationship by Objectives program geared toward alleviating hostility, distrust and attendant problems. The team has been asked back to conduct a follow up.

Another recent major achievement was in the Twin Cities in Minnesota. Federal mediators provided training and facilitation to twelve hospitals and the union representing 7000 registered nurses who were exploring ways to collaboratively manage the effects of changes in the health care industry and to improve their labor-management relationship. After a long history of adversarial bargaining, these parties decided to utilize interest based bargaining and successfully reached agreement.

Currently, in Chicago, FMCS is developing an extensive training program with the Illinois State Department of Children and Family Services and the American Federation of State, County and Municipal Employees. These parties approached FMCS about guidance on forming a partnership and training for supervisors and union stewards on grievance handling, problem solving, and other skills to improve their relationship. This state agency, whose caseload has risen from 50,000 to 115,000 children under its protection, has been under intense public pressure lately because of an increasing incidence of injury and abuse of these children. The situation is complicated by an adversarial relationship between the parties who are now interested in receiving assistance in improving their relationship so that they can then jointly address the public outcry.

We believe that through our dispute and preventive mediation services, FMCS is an effective partner with our management and labor customers in resolving their collective bargaining differences and searching for constructive solutions. In February we conducted five focus groups around the country to ask our customers how critical they think FMCS services are, how satisfied they are with our services, and what we could do better. The feedback was overwhelmingly positive. Both management and labor participants judged FMCS mediation services as critical functions for the federal government to perform.

Our dispute mediation services were said to be "cost effective" means of avoiding strikes and settling disputes. Participants offered anecdotal experiences in which FMCS mediation had prevented work stoppages, plant closures, wage and benefit loss or workforce replacements. Our preventive mediation programs were said to encourage more stable work forces and greater productivity. Several labor participants cited FMCS labor management cooperation programs as being responsible for increasing efficiency at their represented locations. One cited FMCS interest based bargaining training and facilitation as being responsible for saving a facility with over 500 unit jobs.

Management participants at one focus group agreed that, even though a rather small percentage of the workforce is organized nationally, the impact of that sector is enormous. A strike against one company potentially costs millions, and the economic snowball effect is significant throughout the community and the economy as a whole. They concurred that mediation is "essential in this time of change -- for everyone." "Mediation has really calmed everything down." One labor participant predicted that "any effort to diminish FMCS and change its current status or mission would result in a work stoppage incidence of over 30%."

Arbitration

Almost universally, management and labor provide for arbitration to resolve disputes which arise under their collective bargaining agreements. FMCS maintains a roster of 1,700 private, professional arbitrators and, upon request, furnishes a list of individuals to the parties for their selection of an arbitrator to hear their case and make a final and binding decision. FMCS fosters improved contract administration and continued faith in the collective bargaining system each year by providing thousands of panels of arbitrators. Arbitration offers the additional advantage of saving money. The average cost to the parties of a case settled through the use of FMCS arbitrators was $2,352 -- clearly far less than litigation or strikes over grievances. In Fiscal Year 1996, FMCS expects to issue 31,600 panels.

Labor-Management Cooperation Program

As previously stated, the Labor Management Cooperation Act of 1978 significantly expanded our charter by authorizing FMCS to encourage and support joint labor-management cooperative activities designed "to improve labor-management relationships, job security and organizational effectiveness." Congress also authorized FMCS to carry out a program of grants to establish new or expand existing labor-management committees. The Service's goal for this program is to encourage joint, innovative approaches to collaborative management-labor relations and problem-solving.

To illustrate, an FMCS $100,000 grant was awarded this year to promote cooperation between a San Francisco multiemployer group comprising 12 hotels and several unions. Those parties have entered into a ground breaking partnership agreement for the industry. An FMCS mediator has been working with the groups providing training and facilitation for their efforts. One union has already announced that it has cut the cost of grievances in the six months since conclusion of the agreement.

Another grant was awarded this year to six Ohio rubber companies and the United Rubber Workers Union. An FMCS mediator is providing consultation and facilitation services to their labor management committee which is meeting to share ideas and human relations and industrial relations skills and to discuss ways to make the workplace more productive.

Since 1981, FMCS has awarded more than $10.9 million to 187 labor management committee grant applicants. It received 726 applications requesting more than $53 million over the same period. In Fiscal Year 1996 FMCS is requesting a level of $1,750,000 for its labor-management cooperation program.

Alternative Dispute Resolution

Through the FMCS alternative dispute resolution program, mediators assist federal agencies in institutionalizing mediation and other forms of conflict resolution as an alternative to costly litigation. After consultation with client agencies, we provide such services as conflict resolution systems design and evaluation, education, training and mentoring. Through our "train the trainer" programs, we educate agency personnel in conflict resolution skills so they, in turn, can train others. We mediate disputes both within agencies (e.g., age discrimination and other fair employment complaints, whistleblower complaints) and between agencies and their regulated public (e.g., environmental disputes). We are under contract with about 50 agencies to provide various

ADR services.

To date there has been no comprehensive study of cost savings and benefits associated with ADR use in the federal sector, but a number of agencies using ADR techniques to resolve conflicts report significant savings as a result. *Toward Improved Agency Dispute Resolution: Implementing the ADR Act,* Report of the Administrative Conference of the United States on Agency Implementation of the Administrative Dispute Resolution Act, February 1995.

On March 4, 1995, President Clinton signed a memorandum to agency heads on the Administration's Regulatory Reinvention Initiative which included a directive to expand efforts to promote consensual rulemaking. As a result, FMCS has seen an increase in requests for its assistance in facilitating regulatory negotiations.

We have recently completed facilitation of negotiated rulemaking for 1) the Department of Transportation (railway safety issues); 2) Department of Housing and Urban Development (vacant housing appropriations); and 3) Federal Energy Regulatory Commission (involving environmental issues surrounding the New Don Pedro Dam Project).

We are currently conducting regulatory or public policy negotiations for: 1) the Departments of the Interior and Health and Human Services under the provisions of the Indian Self-Determination Contract Reform Act; and 2) the Bureau of Indian Affairs of the Department of the Interior over sacred land issues. At least three more are under review.

I am pleased to report that at a focus group recently conducted with our ADR customers, one participant stated, with concurrence by all, that "if there wasn't a Federal Mediation and Conciliation Service, the government would have to create one." There was consensus that, if the government wants to avoid litigation and resolve disputes more amicably, in less time, and most importantly, at less cost, then the ADR process "is the only way to go and FMCS is the perfect provider." One participant said that "If we have to go outside of FMCS for mediators or mediator/facilitator training, it would kill us; we cannot and will not be able to afford private companies and our organization would have no ADR."

With respect to our regulatory negotiations services, one participant said that by utilizing two mediators from FMCS to conduct four meetings over a two month period, his organization was "able to resolve complex, contentious issues, and put the proposed rules into effect." Without this procedure, "because of challenges and litigation, putting a rule into affect can take one to two years." The participant could not "understand why other agencies, authorities, or departments do not take advantage of this process."

With the public growing more intolerant of litigation as a means of resolving conflict and of regulation, the demand for this ADR work grows steadily. No funds have ever been appropriated for FMCS activities in alternative dispute resolution. As a result, FMCS performs this work through interagency reimbursement agreements. In Fiscal year 1996, FMCS expects to be involved in more than 60 alternative dispute resolution programs.

National Partnership Activities

As part of the "reinventing government" process initiated by Vice President Gore's National Performance Review, Executive Order 12871 was issued by President Clinton on October 1, 1993. It created the National Partnership Council with eleven members. As Director of the FMCS, I serve as a member of the Council. The Executive Order directed the creation of labor-management partnerships throughout the executive branch of federal government.

During the last year, FMCS mediators have provided training in management-labor cooperation and partnership to approximately 500 federal labor-management "pairs" throughout the country. Mediators are continuing this training, as well as providing facilitation and mediation services to these parties. No funds have been appropriated for this activity. We anticipate a level of training and follow-up activity in Fiscal Year 1996 that is approximately the same as Fiscal Year 1994.

FMCS Reinvention Efforts

In December 1992, I initiated a strategic planning process by assembling "The Mediator Task Force on the Future of FMCS" and empowering it to make recommendations to me on the agency mission, goals and policies for the future leading to the development of a strategic action plan by which to achieve these.

The Task Force first examined some of the major forces of change affecting FMCS work. Principal among these were global competition, technology, changing workforce demographics, evolving management and labor relations, rising conflict in society, and the rising use of alternative dispute resolution. The Task Force heard from a variety of customers, including representatives of labor, business, and government, as well as several academic experts and private practitioners who compete with various aspects of FMCS work.

Based on this input and their own deliberations, the Task Force identified areas for improvement. In its Report issued in July 1994, the Task Force concluded that FMCS "should transform itself into a model high performance workplace, which is customer-driven and strives for continuous improvement. It will have to vigorously examine every aspect of the way its organization is structured, work is performed and services are delivered." (Report at page 3.) The recommendations encompassed agency work design, organizational structure, leadership, delivery and support systems, staffing, selection, training and professional development, evaluation and rewards, internal communications and external relationships, and FMCS union-management relations.

After receipt of the Task Force's report, I assembled a group to develop a strategic action plan to implement the vision for the future described by the Task Force. That planning group assigned a number of subjects (technology, rewards and evaluations, customer service/survey, resource clearinghouse, and training and professional development) to five task committees composed of mediators and other professional staff for further study. Those task committees have made their recommendations, and implementation is already underway. The written strategic action plan, which will soon be completed, will outline goals, a strategy for achieving these goals, resource allocation, responsibilities, and time lines.

We have made significant progress in streamlining our operations. Our streamlining plan entails a significant, overall reduction of management level positions, a consolidation of departments, and a flattening of the hierarchy. To date, three GS-15 positions will be eliminated by retirements, one by resignation, and four more will be eliminated by buyouts beginning in March 1995. Six positions below GS-15 level have been eliminated by buyouts. These positions were both in our National Office and in the field. We will be reviewing our field office structure for efficiency and effectiveness. We have already reduced our National Office management structure by consolidations of departments. With only one level of supervision between the field mediators and our customers and the office of the Director, our flattened structure enables swift coordination and responsive mediation activity.

Critical to our restructuring initiatives will be our technology modernization plan, a functional assessment of every administrative function, appropriate work redesign, and strategic use of information technology to leverage our resources and streamline operations. We have also established an "Efficiency and Effectiveness Committee" to review Agency operations.

Our Objectives

To meet the challenges of the upcoming months and years, to adjust to the dramatically changing economic environment, and to adequately respond to our customers' needs, FMCS must hire, train, and retain the most qualified workforce possible. We must provide our staff with the resources needed to accomplish our mission--to improve the practice of collective bargaining and to promote labor-management cooperation and conflict resolution throughout the United States.

To do this, we are requesting funding for our regular programs, as well as funding for three principal initiatives. The first is for the continuing education, training and professional development of our mediators to enable them to upgrade their skills in preparation for the 21st century and keep current with the latest workplace developments. The second is for technological improvements to enhance our efficiency, productivity and internal communications. Our agency has not yet been able to supply all of our 179 mediators with computers, laptops, or even fax machines. We do not yet have E-mail. Scattered as they are around the nation, many in one person stations, these mediators are at a tremendous disadvantage in this technological era. Third, is to perform a nation-wide customer survey.

We at FMCS are attempting a comprehensive, systemic approach to reinventing our agency and transforming it into a model high performance workplace. A recent study examined whether high performance work practices are generally associated with better firm performance. (*High Performance Work Systems and Firm Performance,"* Bureau of Labor Statistics, Monthly Labor Review, May 1995.) It concluded that it is the use of comprehensive systems of work practices, as opposed to a piecemeal approach, "that is most closely associated with stronger firm performance."

The Mediator Task Force on the Future of FMCS looked at our agency as a whole. Its recommendations cover many subjects which together form a coherent whole leading to greater opportunities for organizational learning and continuous performance improvement. Critical to these recommendations is a focus on professional development and careful and strategic use of modern information technology. Both of these components, when applied as part of an overall strategic plan, play an important role in promoting high performance workplaces. Without either one of them, we would be at a disadvantage in meeting our vision for the future. We are persuaded by the examples set by many leading edge businesses who are finding that investments up front in human assets through education and training and in information technology ultimately pay off.

We are therefore requesting that FMCS be provided with an appropriation level of $33,290,000 and 296 full-time equivalents in Fiscal Year 1996.

Mr. Chairman, I will be pleased to respond to any questions you or other members of the Subcommittee may have.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

Answer: A 10 percent reduction in funding below the Fiscal Year 1995 appropriation level would amount to a cut of $3,134,000 for the Federal Mediation and Conciliation Service.

Method of Reduction. If the Service received such a reduction in funding, all programs, including hiring and spending plans associated with the programs, would be examined for possible reduction, delay, or elimination.

We do not know exactly what we would do to meet such a reduced level, but it is safe to assume that there would be a hiring freeze, a reduction-in-force, furloughs, and spending cuts for vital necessities such as travel, rents, and communications, In addition, grant funds under the Labor Management Cooperation Program could be reduced or eliminated.

In Fiscal Year 1996, FMCS planned to hire approximately seven new mediators and four other positions. With a hiring freeze, there would be no replacements for positions vacated through retirement and other attrition. Critical vacancies would remain unfilled. We could expect to save less than $300,000 from such a hiring freeze.

If the Service had a reduction-in-force and eliminated the last 25 mediators hired, we could save approximately $1,000,000 of the $3,134,000 needed. This would translate into a cut of 12.5% of our entire national staff of mediators. However, such a RIF would result in at least five field stations without mediators and several field stations with drastically reduced staff.

The Labor Management Cooperation Program currently has a funding level of $1,500,000 for grants. Some or all of these grant funds could be used to cover other spending items but the vital work of this program would be curtailed or eliminated.

If the entire reduction in funding were handled through furloughs, there would be 45 days of furlough of the entire FMCS workforce needed to meet the reduction. If FMCS implemented the hiring freeze and RIF'd 25 mediators, there would be a need for approximately 26 days of furlough. If FMCS implemented the hiring freeze, RIF'd 25 mediators, and eliminated the Labor Management Cooperation Grants Program, there would still be a need for five days of furlough.

Effects of Reduction. A 10 percent reduction would have a disastrous effect on FMCS and our ability to deliver vital services to our clients. In some parts of the country, our work would cease or be reduced to an intolerable level.

Our assistance in dispute mediation and preventive mediation would be curtailed and we believe this would result in a higher incidence of work stoppages and longer duration of labor-management conflicts. We also believe that the impact of such a cut in funding would last for years and would result in increased labor-management conflict.

Our ability to respond to the increasing demand from federal government agencies for our alternative dispute resolution services would be greatly curtailed by our reduced workforce.

Of course, a ten percent reduction from 1995 appropriation level would also entail our inability to fund three important initiatives for which we had sought an increase in our appropriation over FY 1995 level. These initiatives are as follows:

- Strategic Information Plan; $613,000 for basic– even elementary– technology improvements such as fax machines, computers and additional integrated software to allow better communication with our 79 Field Offices and development of a local area network, including E-mail;
- Training and Education; $430,000 for mediator professional development training to assure that our mediators have the knowledge, skills and competencies in the most modern, up-to-date, high performance workplace processes;
- Customer Service Survey; $30,000 to collect opinions, attitudes and comments about FMCS from customers and potential customers, to assure our responsiveness to these customer needs and interests.

FEDERAL MINE SAFETY AND HEALTH REVIEW COMMISSION

STATEMENT OF MARY LU JORDAN, CHAIRMAN

Mr. Chairman:

It is a pleasure to submit this summary statement explaining the Federal Mine Safety and Health Review Commission's FY 1996 budget request, its accomplishments, and its plans for the near future.

The Federal Mine Safety and Health Review Commission is an independent, adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Federal Mine Safety and Health Act of 1977. Most cases deal with civil penalties assessed by the Department of Labor's Mine Safety and Health Administration (MSHA) against mine operators and address whether the alleged violations occurred as well as the appropriateness of proposed penalties. Other types of cases address mine closure orders, miners' complaints of safety-related discrimination and miners' requests for compensation after having been idled by a mine closure order.

The Commission's administrative law judges (ALJs) decide cases at the trial level. The five-member Commission provides administrative appellate review of ALJ decisions. The cases come before the Commission by parties' petitions for discretionary review. The Commission may also direct review on its own in cases that may be contrary to law or that present novel questions of policy. An ALJ's decision that is not directed for review becomes a final, non-precedential order of the Commission. The Commission's decision are precedential and many involve issues of first impression under the Mine Act. Appeals from the Commission's decisions are to the U.S. Courts of Appeals.

Currently, the Commission has four members and one vacancy. The term of two commissioners will expire near the end of FY 1996.

The budget request for FY 1996 totals $6,467,000 to support 60 FTE. The additional funding request of $267,000 is essential to maintain this staffing level. Included in this amount are $145,000 required for added payroll costs attributable to the 1995 pay adjustment and to the anticipated January 1996 pay increase. $106,000 is requested for mandatory payroll costs at the authorized 60 FTE employment level. The remaining $16,000 is requested for other increased support costs.

During the three years covered by this budget submission, the Commission expects a constant level of new cases at the trial level. A total of 5,080 new cases were received in FY 1994 and 5,100 are anticipated for FY 1995 and FY 1996. In FY 1994 the ALJs disposed of

4,306 cases. The Commission's future plans call for increasing dispositions at the ALJ level. The Commission hopes to dispose of 4,580 cases in FY 1995 and 4,650 in FY 1996.

A substantial portion of the Commission's FY 1995 resources are being devoted to review an ALJ's decisions in a large number of similar cases commonly referred to as the "Dust Cases." One of the Commission's major accomplishments this fiscal year is the expeditious handling of these complex cases. On May 20, 1994, the Commission received a petition for review from the Secretary of Labor raising 14 points of error in the judge's decisions. The Dust Cases involve the largest record ever before the Commission: 14,000 pages of transcript, 586 exhibits, 31 expert reports and 36 pleading files. The Commission determined to resolve the Dust Cases as expeditiously as possible; it set a briefing schedule requiring the completion of briefing by parties and intervenors by the end of December 1994, a fast track given the complexity of the issues and the extraordinary size of the record. The briefs submitted to the Commission were lengthy, totaling 377 pages. Oral argument was held on March 29, 1995. The Commission plans to issue its decision by the end of the fiscal year.

Depending on the resolution of the Dust Cases, a stay currently in effect that applies to related dust cases at the ALJ level could be lifted by FY 1996. This could activate 3,722 additional cases on the Commission's trial and appellate dockets.

In FY 1994, the Commission received 105 cases for appellate review and disposed of 95 proceedings, ending the year with an inventory of 57 cases. The average age of the matters pending before the Commission at the end of FY 1994 was 5.2 months, and the average age of decision issued during that fiscal year was 4.7 months. Because the Commission has had to devote significant resources to the Dust Cases, total dispositions are expected to drop to about 80 in FY 1995, with a consequent rise in end-of-year inventory to 70 cases. In FY 1996, the Commission anticipates increasing appellate dispositions to about 91 in an effort toward reducing the end-of-year appellate inventory to a more manageable level.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

Answer: The proposed budget levels and impact are described below:

	FTE	Funds $000
FY 1996 President's Budget Request	60	6,467
Increase over FY 1995	--	267
FY 1995 Appropriation	60	6,200
10% Reduction	-6	-620
FY 1996 Reduced Level	54	5,580
Reduction Below President Budget	-6	887

Since undergoing a reduction in force in the early 1980's, the Commission has been sensitive to fiscal constraints and has conducted its programs at minimum personnel and funding levels. All but five of the Commission's FTEs are directly involved in the adjudicatory function. Even when its workload increased fourfold in 1991 and end of year case inventories increased from 1,200 to more than 7,000 cases, the Commission added only four Administrative Law Judges. Since that time, the intake of new cases has remained at a sustained high level and, while dispositions average more that 330 cases per judge, the inventory of cases pending decision currently exceeds 7,300.

At the ALJ level, a 10% reduction will likely mean the loss of two administrative law judges and support staff. Case dispositions currently estimated at 4,650 for FY 1996 will drop below 4,000 at this reduced funding level, with a corresponding increase in end-of-year inventories and in the age of pending cases and issued decisions.

At the Commission level, the President's FY 1996 budget anticipated the conversion of a clerical position to an attorney position necessitated by the increase in cases being appealed. A 10% reduction will not only eliminate the proposed conversion but will cause further reductions in the Commission's attorney support. The Commission had production levels in FY 1994 that resulted in average decision and inventory ages of less than six months. The necessity of devoting substantial resources to review of the Dust Cases has already affected the Commission's work on other cases and has increased the average age of the Commission's pending FY 1995 docket to over eight months. We estimate that funding at the level specified in the President's budget would at least keep the average age of the Commission's year-end inventory from rising further in FY 1996. However, a 10% reduction in FY 1996 will cause the age of pending and issued appellate cases and the end-of-year inventory to continue to rise, while production levels will deteriorate.

U.S. NATIONAL COMMISSION ON LIBRARIES AND INFORMATION SERVICE

STATEMENT OF JEANNE HURLEY SIMON, CHAIRPERSON

I am pleased to present this statement in behalf of the National Commission on Libraries and Information Science. This written statement, along with our appropriation justification, contains details of the Commission's proposals for FY 1996.

As you know, the President's FY 1996 budget requests $962,000 for our agency. You also know that, as part of the President's initiatives on reinventing government, all federal agencies are re-examining their missions. This re-examination includes addressing the mission based on customer input, asking whether the mission can be accomplished as well or better without federal involvement, looking for ways to cut costs or improve performance through competition, and looking for additional ways to put customers first, cut red tape and empower employees. The National Commission on Libraries and Information Science is actively participating in this effort and will keep you apprised of our review.

In reviewing the Commission's mission, we have summarized and itemized our essential functions from those included in our statute, Public Law 91-345. Those three essential functions are:

1. determining the needs of the people of the U.S. for library and information services,

2. translating those needs into policy recommendations, and
3. advising the Congress and the President on the implementation of national policy.

To accomplish these essential functions and to make better use of our small independent agency's resources, we are planning collaborative partnerships with governmental agencies at all levels and with non-profit, independent and private organizations to assure that the needs of the people are identified and addressed at the appropriate level. Let me give you three examples of what I mean:

1.) The first example is a conference the Commission co-sponsored in early February in Philadelphia. This one-day national pre-White House Conference on Aging, *Toward the White House Conference on Aging: Priorities and Policies for Libraries and Information Services for Older Adults*, developed recommendations for meeting the needs of libraries and information services in serving older adults. The meeting involved over 200 participants, with seniors over 65 in the majority. The Commission worked with representatives from the American Library Association and the National Library Service for the Blind and Physically Handicapped of the Library of Congress to plan and conduct this conference. NCLIS will publish and distribute the proceedings of our February pre-conference.

The prioritized recommendations developed at the pre-conference were transmitted to the 1995 White House Conference on Aging for consideration by delegates at the national conference scheduled for early May. Further, the Commission is coordinating plans for an information resource center at the May conference to support the information needs of delegates as they develop policy recommendations. By establishing partnerships to sponsor the pre-conference and to support the information resource center, the Commission is leveraging resources to accomplish our program functions.

2.) The second example of the Commission's collaborative work is a current project studying the costs of libraries' using the Internet to improve and enhance information services for citizens. This study builds on a 1994 Commission-sponsored national survey of U.S. public libraries connected to the Internet. This spring 1994 survey showed that 20.9% of our 9,050 public libraries were connected to the Internet. (We expect that percentage has grown rapidly in the past year.) NCLIS' study findings have been widely reported and requests for the Commission's published report *Public Libraries and the Internet: Study Results, Policy Issues, and Recommendations* are received daily from around the world.

In the 1994 NCLIS survey, public libraries reported annual Internet expenditures of from $275 to $14,700. This wide cost variation is problematic for libraries planning Internet connections. In order to take advantage of the potential of Internet for libraries to offer services that respond to citizens' information needs, decision-makers at every level need more accurate cost estimates. The Commission's cost model study will provide valuable information about the role of libraries in offering Internet services to local communities.

The Commission is beginning this new investigation by exploring the experience of public libraries and state-wide networking initiatives. Public libraries obviously are critical to the public's access to electronic information services of all kinds. State libraries are key to building and expanding networks for Internet connections and many other electronic information services offered through libraries to people in their states.

The states represented by the members of this subcommittee have strong library and information networks of various kinds. I know that you know how important the computer networks are for delivering information. Some statewide library and information networks, for example, broadcast the states' job vacancies, state contracts that are open for bid, pending legislation, and similar information that helps job-seekers, business-people, students and other residents in every corner of your states.

The Commission is sponsoring the first phase of this research to identify cost elements, categories, and models for public library and state network Internet involvement. We are exploring partnerships to expand this research to include other communities, such as those served by college, university, community college, research, and school libraries. We hope the additional phases of research will start later this year and extend into 1996.

3.) The third example of partnership activity involves an ongoing Commission program for library statistics. This program has been carried out since 1988 with the National Center for Education Statistics, in conjunction with state library agencies. The program's initial objective was the annual collection of public library statistics. Today each state has a data coordinator who collects information from all the state's public libraries. These national data are published by NCES providing comparative information by state totals representing 40 different services and activities. The coordinators are developing additional data elements and definitions to measure online information services using compact discs (CD-ROMs), the Internet and other online electronic information services.

The Commission also works with NCES to coordinate the collection of descriptive statistics relating to other types of libraries, including school library media centers, academic and research libraries, federal libraries, and, this year for the first time, a survey of the state library agencies. The Library Statistics Program is a cooperative venture involving all levels of government. Cities, counties, campuses, states and the U.S. government all share responsibility for collecting and reporting timely, reliable and uniformly defined data, used for planning and analysis. These library statistics are useful for identifying changes over time and, in the future, will also tell us how libraries can best exploit the potential of information and communications network services to meet the information needs of the people of the U.S.

At last year's hearing before this subcommittee I quoted the Commission's executive director about what assumptions should guide the Commission in considering issues and topics of concern. Those guidelines are still very pertinent as we seek to fulfill our federal role and to use our resources for maximum productivity and return. Mr. Young's guidelines include the following:

1. **The Commission should concentrate attention on those few emerging issues that will generate fundamental change.**
2. **The Commission should concentrate on problem areas that are consistent with NCLIS' statutory functions. Future investment of NCLIS' program resources should extend those existing statistical, analytical and research efforts that are** required to provide a basis for national library and information services policies in the coming decade.
3. The Commission should identify opportunities for niche program areas that require NCLIS' leadership and that are not adequately addressed by agencies, associations and other library and information services groups.
4. Major events or trends that should guide the Commission's focus include global changes in information services and technological changes in the creation, distribution and consumption of information.

What these guidelines say to me is that the Commission must stay focused on the most important issues that will mean the biggest changes for the people of the U.S. in their needs for libraries and information services. These guidelines say to me that the Commission must choose its work carefully for maximum impact and that we must leverage our resources through cooperative activities with partners in the public, private and independent sectors. Finally, these guidelines say to me that the Commission plays a unique and critical role in support of national policy for libraries and information services.

Thank you for the opportunity to present this statement.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

A 10 percent reduction in the Commission's current agency budget would have very serious negative consequences on our small agency. The National Commission's effectiveness would be compromised by such a reduction and plans for the Commission's 1996 work would require significant downsizing. Such a reduction would force the Commission to curtail current program plans and would leave us unable to meet staff payroll commitments. In an effort to maintain costs, the Commission has met only three times in fiscal year 1995 instead of conducting the customary quarterly meetings. A budget reduction of 10 percent would prevent the Commission from functioning effectively.

The members of the National Commission reviewed the agency's mission this past winter. We concluded that NCLIS fulfills a key role in determining the need for policies to assure that all the people of the U.S. have the opportunity to participate in the global information age. NCLIS provides a citizen voice for shaping policy to meet the individual library and information needs of all the people. Further, we concluded that the Commission could not continue to perform mandated statutory functions with reduced appropriations.

In these times of rapid and revolutionary changes in the information field, we cannot afford as a Nation to become less well-informed. Our Nation's libraries and our Nation's people need a strong National Commission, now and in the future.

Recent advances in computer networking and communication technologies have resulted in the development of the Internet. These systems offer tremendous potential for expanding and extending public library services to the American public. The Commission's work in this area builds on a cooperative program between NCLIS and the Department of Education's National Center for Education Statistics to collect and report library statistics at the National level for public, academic, school, and special libraries.

In the near future the Commission plans to continue studying the role of libraries in the emerging information infrastructure. These plans were formed in response to U.S. library and information services community requests for planning assistance related to libraries and electronic information.

NATIONAL COUNCIL ON DISABILITY

STATEMENT OF MARCA BRISTO, CHAIRPERSON

Introduction. The purpose of this document is to present the budget proposal of (NCD) for Fiscal Year (FY) 1996. It will present a brief overview of the Council and its work during FY 1994 and FY 1995 and present the Council's proposed budget for FY 1996, with explanations of differences with FY 1995.

Overview of the National Council on Disability. The National Council on Disability (NCD) is an independent federal agency led by 15 members appointed by the President and confirmed by the Senate. Established in 1978, the National Council was designated as an independent agency in 1984, so that it might be in a unique position to offer objective and independent expert advice to the Congress and the Administration. Our authorizing legislation, the Rehabilitation Act, provides a very broad mandate, covering all aspects of disability policy. The Council is committed to the furtherance of policies that ensure the inclusion, empowerment, and economic self-sufficiency of people with disabilities. ***The National Council is the only federal agency charged with analyzing and making recommendations on issues of public policy which affect people with disabilities regardless of age, disability type, perceived employment potential, economic need, specific functional ability, status as a veteran, or other individual circumstance.*** **The National Council is dedicated to improving employment**

opportunities for people with disabilities, independent living and community integration.

The current goals of NCD are:

- Monitoring the implementation of existing Federal laws which impact on the quality of life experienced by citizens with disabilities, such as:
    - The Americans with Disabilities Act (ADA)
    - The Individuals with Disabilities Education Act (IDEA)
    - The Rehabilitation Act of 1992
    - The Fair Housing Act Amendments of 1988
- Continued development of strategies to improve the educational achievements and employment opportunities for individuals with disabilities.
- Re-examination of existing disability policy to identify inefficiencies, duplication, conflicts, and gaps and to make recommendations for improvements.
- Continued identification of and response to emerging issues that affect people with disabilities. Examples of emerging issues that affect people with disabilities include the National Information Infrastructure (NII), and the disability aspects of the current re-examination of government programs by the Congress and the Administration.
- Improved communication with the disability community. This is needed to ensure that people with disabilities know about available programs and services and have a voice in making these programs and services more responsive to their needs.
- To ensure that programs, services, and benefits for people with disabilities are accessible to minorities and people living in poor and rural areas of the country. It is also the NCD's goal to ensure that its own activities include and respond to the needs of these populations.

The Council meets quarterly in Washington and at other sites around the country.

Major Accomplishments During FY 1994. During FY 1994 NCD was engaged in a wide variety of activities, including conducting "town meetings" and hearings throughout the country, and representing people with disabilities on Federal advisory boards, task forces, in international forums, in the media, and with business leaders.

During FY 1994, NCD conducted five "town meetings" across the United States in order to provide persons with disabilities with an opportunity to express their views on the various proposals for health care reform which were being considered by the 103rd Congress. The Council issued its report, *Making Health Care Reform Work for Americans with Disabilities*, on July 27, 1994. NCD also sponsored an ADA Watch Roundtable which brought together disability leaders to discuss ADA implementation efforts around the country. Federal, State and local officials also participated in these discussions. A report entitled, *The Americans* *with Disabilities Act: Ensuring Equal Access to the American Dream* was released on January 26, 1995.

FY 1994 also saw the Council continuing in its role as a broker between citizens with disabilities in their local communities and large government agencies. An example of this were found in our communication with the Health Care Financing Administration (HCFA) regarding a Notice of Proposed Rulemaking governing the reimbursement for medical rehabilitation services required by people with disabilities. NCD informed HCFA of significant concern at the local level that this Proposed Rule would serve as a barrier to cost-effective home and community-based living for people with disabilities. HCFA subsequently withdrew the Proposed Rule.

In the area of research, NCD continued its study of inclusionary education, working with the Education Development Center and the Pathways Awareness Foundation to produce *A System Apart: A Study of the Least Restrictive Environment Provisions of IDEA in Massachusetts and Illinois*. This report was reinforced by the publication of a companion study on educational inclusion, entitled, *Inclusionary Education for Students with Disabilities: Keeping the Promise*, in May, 1995. NCD also began planning a series of field hearings on the implementation of the Individuals with Disabilities Education Act (IDEA), and through its contract with the Beach Center on Families and Disability, commissioned the production of 27 papers written by nationally prominent researchers and teacher trainers on the reauthorization of IDEA.

We also supported research on the application of the ADA for persons with cognitive impairments. Finally, NCD contracted with the National Institute on Disability and Rehabilitation Research (NIDRR) to initiate work in three new priority areas: ensuring access to the information superhighway for Americans with disabilities; the status of Federally assisted/sponsored policies and practices targeted to increase the participation of people with disabilities from diverse backgrounds in community service and educational programs; and the impact of United States foreign policy on the status of people with disabilities abroad.

During FY 1994, NCD provided formal testimony to the Congress on the reauthorization of IDEA, the FY 1995 Budget Request of the National Council on Disability, and the need to forward human rights of people with disabilities on an international basis.

Finally, during FY 1994 NCD also responded to thousands of telephone and written inquiries on disability policies and services.

Current and Planned Activities. Thus far during FY 1995, the Members and staff of the National Council on Disability have been involved in a wide variety of policy research, interagency liaison, and outreach activities. Policy research activities completed or underway in FY '95 include the following areas: development of consumer-based recommendations for the improvement of the Individuals with Disabilities Education Act; determination of appropriate methods by which individuals with disabilities might effectively access the "information superhighway", and cataloging examples of the impact of the Americans with Disabilities Act on people with disabiliites, businesses and governments. All of these activities involve the full participation of people with disabilities from all across the country. We are also planning an intensive examination of current disability policy across all areas of the Federal government, to determine the effectiveness of these policies, and to set priorities for the improvement of these policies. Current Federal policies often conflict and are not supportive of the documented desire of persons with disabilities to enter the nation's workforce as productive employees.

Budget Request for FY 1995. The President's FY 1996 Budget requested $1,830,000 for the National Council on Disability. Our FY 1996 request for funding represents only modest increase in a few line items. This, in spite of the fact that in FY 1996 we are proposing to undertake major and important initiatives designed to markedly improve disability policy in this country. NCD has historically operated in a cost-effective manner, with a small core staff to identify issues and coordinate research projects. Much of our actual policy research is privatized through external contracts. The Council then considers the findings of this research and develops recommendations to the President and Congress based on this independent research.

Below are several modifications to our original request as a result of our FY 1995 final appropriation being $50,000 higher than the estimate shown in our FY 1996 OMB submission. That increase allows us to reduce requested increases for some accounts in FY 1996. I will highlight the line item changes we are proposing are highlighted. Our FY 1996 request represents an increase of only $37,000 over FY 1995.

Personnel. We are requesting an increase in our Total Personnel Compensation line of $12,000, a reduction from our original request of $34,581. This is to accommodate regular step increases for Council staff and also reflects the one FTE we reassigned under the Rehabilitation Act Technical Amendments of 1993 (P.L. 103-73).

Civilian Personnel Benefits. We are requesting an increase of $5,000, reduced from $19,000, to cover anticipated increases in benefits. These are proportionally determined based on anticipated salary outlays.

Rental Payments. We are requesting a total increase of $3,000, instead of 5,000, in order to meet our lease obligations in this area.

Other Services. We are proposing an increase of $13,000, down from $22,000, in this category in order to improve our outreach to the customers of our services (people with disabilities and their families) and to support follow-up activities from our planned national disability policy review. This line item supports our external research and contractual services, our support services contract with the General Services Administration, and reasonable accommodation expenses associated with the provision of readers, interpreters, and attendants who support our staff members with disabilities and the participation of people with disabilities at our meetings and hearings, as well as training for staff in order to improve their technical skills, particularly as they relate to office automation. The NCD believes that it should operate as a model agency in providing reasonable accommodation to its members and employees, and in the manner in which it conducts its public meetings and publishes its reports.

Supplies and Materials/Equipment. During FY 1996, we are proposing an increase of $4,000 instead of $6,000 in this area, in order to allow for the purchase of necessary office supplies and materials as well as necessary software and minor maintenance of our computer system. This slight increase is occasioned by the fact that last year we requested a reduction in this line item in order to allow us to use up previously purchased materials. This slight increase represents a "balancing off" of our needs in this area.

During FY 1996, the National Council on Disability will continue its interagency policy liaison activities with the National Institute on Disability and Rehabilitation Research, the Rehabilitation Services Administration, the Office for Special Education and Rehabilitative Services, the President's Committee on the Employment of People with Disabilities, and other governmental entities as mandated by Congress. We will also continue to increase our outreach to consumers, national organizations concerned with disability policy as well as the private sector. In this way, we will be able to ensure that the policy guidance we provide to the President and Members of Congress is truly representative of the needs and aspirations of people with disabilities.

Conclusion. These modest increases described above represent the costs of doing business as a very small agency. We are proposing these investments in order to ensure that our work continues to support the inclusion, empowerment, and economic self-sufficiency of citizens with disabilities. In thois critical time of government re-examination, the quality information contained in the research and recommendations of NCD directly impact the ability of direct service agencies to provide low cost, effective programs to persons with disabilities.

The National Council recently commissioned a national customer satisfaction questionnaire to provide us with feedback on our activities from the ultimate consumers of all of our efforts: people with disabilities themselves. Questions included whether the mission could be accomplished as well or better without Federal involvement; how to cut costs or improve performance through competition; and ways to put customers first, cut red tape, and empower employees. The respondents were nearly unanimous in supporting NCD's role in policy development. In particular, they endorsed NCD's unique role in the federal government as an independent voice. In addition, respondents also approved NCD's role in monitoring and providing information on pending legislation when it relates to disability policy. Strong support was also voiced for NCD's role in keeping the Congress and Federal officials informed on matters of interest to individuals with disabilities. Other functions of NCD such as meeting with consumers to gather input on disability policy issues and representing the interests of people with disabilities on various Federal advisory boards and task forces were also rated very highly. In short, the survey validated NCD's role within the Federal government and the processes by which it accomplishes this work and strongly supported the strengthening of our efforts in all of these areas. It is our hope that you will provide us with the resources to respond to this call and to work together to improve the quality of life experienced by people with disabilities.

We are truly excited about our planned activities for FY 1996. We will, of course, continue to provide the President and the Congress with timely information and advice on the most pressing issues facing Americans with disabilities. We want the Congress and the public to know that we continue to be here to serve them, and we pledge to do everything humanly possible to make sure that we serve them well in a timely manner. Members of Congress are invited to contact the Council at any time for information regarding issues affecting people with disabilities, or even for assistance in using appropriate terminology in a speech, providing background information for responses to constituent letters, and the like.

The Council's overall mission is to propose policy that will allow persons with disabilities to be independent, productive, tax-paying citizens, who are valued and equal members of their families and communities, as they wish to be. We ask that you provide us the basic resources we need in order to achieve this important mission. Thank you for your serious consideration of our FY 1996 budget request.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Q: What would be the effect of a 10 percent reduction in your current agency's budget?

A: Under the direction of Chairperson Marca Bristo and Acting Executive Director Speed Davis, the National Council on Disability has been working in FY 1995 to reduce administrative costs and redirect savings into research activities. As a result, a 10 percent reduction would reduce our ability to do research and make recommendations that have the potential of improving federal programs for people with disabilities while reducing the costs of those programs by approximately 30 percent.

NATIONAL LABOR RELATIONS BOARD

STATEMENT OF WILLIAM B. GOULD, IV, CHAIRMAN

Dear Mr. Chairman:

We welcome this opportunity to summarize the National Labor Relations Board's (NLRB) budget request for Fiscal Year (FY) 1996. In accordance with normal procedure, the Agency submitted a detailed FY 1996 Justification in February. The FY 1996 budget now before you requests an appropriation of $181,134,000, an increase of less than three percent over the FY 1995 appropriation of $176,047,000.

The NLRB's sole mission is to resolve representation disputes and to remedy unfair labor practices. It has no control over its case intake; all charges must be investigated. This request is the product of an analysis of the NLRB's best current estimate of the number of cases that the Agency will receive in 1996; how these cases will be resolved; the number of staff-years of employment (FTE) needed based on targeted rates of productivity; and, finally, the direct and support costs required to handle the anticipated caseload.

It is estimated that in FY 1996 the Agency will receive 37,508 unfair labor practice cases and 7,245 representation petitions, a total increase of 4.8 percent over 1995. The smaller (less than three percent) increase in funding over FY 1995 will provide for 62 additional full-time equivalents (FTEs) for field case handling to enable us to resolve labor disputes in a more timely manner. At the end of May 1995, there were 4,733 situations pending a preliminary investigation, a 14 percent increase in backlog from May 1994 and a 36 percent rise from May 1993. In addition, the funding increase will enable us to absorb the costs of within grades, promotions, annualization of the 1995 locality pay increase, Federal pay increases planned for 1996, and escalated space rental costs nationwide. This request will also sustain our multi-year effort to automate our case tracking and management.

RECENT MAJOR ACHIEVEMENTS

The General Counsel has statutory responsibility for the investigation and prosecution of cases. By virtue of the Board's delegation to him, 33 Regional Directors and their staffs process representation as well as unfair labor practice cases. Directly under the responsibility of the Chairman and the Board are the Division of Administrative Law Judges and the staffs of the Board Members. We will briefly address recent achievements in these areas.

FIELD INVESTIGATIONS

Our overall case intake rose by 1.3 percent in 1994 to a total of 40,861 charges and petitions. Of the unfair labor practice charges filed in FY 1994, 33.4 percent were found to have merit. In addition, 29.9 percent of all charges were withdrawn and another 34.8 percent were dismissed prior to issuance of complaint during FY 1994. Furthermore, it is noteworthy that 92.3 percent of cases found to be meritorious were settled. It has long been this Agency's belief that parties are better served if we are able to settle their disputes without the need for time-consuming and costly litigation. Notwithstanding the high settlement rate, when we were required to litigate a matter, we were successful in 86 percent of cases in trials before the Board and the Administrative Law Judges during FY 1994. During FY 1994, our Regional Offices distributed over $61 million in backpay. During that time, 2,984 employees were reinstated and 1,466 additional employees were offered reinstatement, but declined.

Finally, we have been busy with a number of reinvention initiatives that have been implemented or are well into the planning process. For example, we have delegated routine case handling and administrative decisions to the lowest practicable level. We have begun: streamlining supervisory functions through reduction of vertical staff layering; allowing supervisors maximum flexibility to perform direct case handling; increasing the ratio of unit employees to supervisors; permanently locating Board agents in cities distant from Regional Offices where they work out of their homes and report via telecommunications; authorizing telephone affidavits of witnesses in many situations to save time and travel expense; and deferring the processing of "collection cases" (involving allegations that an employer has failed to provide contractually-required benefits) pending the result of a concurrent action to collect arrearages, such as a civil suit. We are refining existing case time targets and performance measures in both unfair labor practice cases and representation cases so they will encourage outcomes that will further the mission of this Agency as set forth in the National Labor Relations Act.

In Fiscal Year 1994, our Administrative Law Judges closed 531 hearings, issued 523 decisions, obtained 98 settlements in person and another 338 by means of telephone conferences. The total number of settlements, 436, reflects the emphasis we continue to place on settling cases whenever possible, not only because they save both the Agency and taxpayers a great deal in litigation costs, but in that they ensure that the parties themselves avoid the delays and cost inherent in the formal trial process and subsequent consideration by the Board and/or the Courts of Appeals.

On February 1, we commenced with a one-year experimental program which would promote still more settlements through the use of settlement judges who have the authority to mediate and not adjudicate. Another trial modification gives Administrative Law Judges the authority to render bench decisions in certain cases within 72 hours after conclusion of oral argument. This could reduce the time it takes to process unfair labor practice charges by as much as 6 months.

MEMBERS' STAFFS

In 1994, the Board decided 521 unfair labor practice cases and 196 contested representation cases. At the close of FY 1994, the Board had 354 unfair labor practice cases pending. With respect to overage cases, at the end of FY 1994, the Board had 35 pending cases that were more than two years old. It should be noted that during first five months of the fiscal year, the Board was either operating with three members or was without a quorum until three new Board members and the General Counsel were confirmed. In an effort to expedite the processing of cases, the Board recently instituted a "speed-team" subpanel procedure whereby the Board Member identifies among the cases he has been assigned those cases involving straightforward issues, the written decision in which, with the agreement and early involvement of the other two panel members, can be drafted and circulated promptly without the need for detailed, time-consuming covering memoranda.

OUTLOOK FOR FISCAL YEAR 1995

While the FY 1995 appropriation of $176,047,000 represents a $4,773,000 increase over 1994, the increase will be absorbed by mandatory pay raises and increases in space rent. The total staff funded for the Agency has been reduced from an actual level of 2,063 in FY 1994 to a ceiling of 2,054 in FY 1995. A 4.5 percent increase in total case intake is projected for FY 1995. As mentioned earlier, 4,733 situations were pending investigation at the end of May. Assuming that we are able to maintain last year's settlement rate of 92.3 percent and increase productivity by two percent, we project that 6,750 situations will be awaiting investigation at the end of FY 1995.

We are also in the midst of a multi-year ADP program designed to improve our information and communications systems to increase both the efficiency and effectiveness of case handling. By the end of this year, we will have installed local area networks and electronic mail in all of our Regional Offices. Employees will be able to electronically access Board Decisions, case digest indexes and other Agency research materials. Most significantly, the initial development of the Case Activity Tracking System (CATS) is well underway. This system will ultimately automate and integrate case processing, management and legal research functions Agency-wide.

FISCAL YEAR 1996 BUDGET REQUEST

A 4.8 percent increase in case intake is projected for FY 1996. The $5,087,000 increase represented in the FY 1996 request will allow for an additional 62 FTE in our Regional Offices. The Agency's FTE will increase from 2,054 to 2,116. Through maintaining high rates for settlements and election agreements and further automation of our case handling, we hope to keep pace with the increase in unfair labor practice cases projected while reducing representation case backlogs. The additional funds will also absorb the costs of compensation adjustments and increases in space rent.

We are requesting $1,830,000 for the Case Activity Tracking System, the development of which we anticipate will be substantially completed by the end of FY 1996. Integration of this system into the front-line work environment will not only reduce the burden of duplicative data entry, but will enhance our ability to manage the caseload at the local and national levels.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

Implicit in the NLRB's mission is a labor-intensive operation which must function in a reactive mode. None of the NLRB's cases are of its own volition. Unfair labor practice (ULP) charges and petitions for representation are filed in our Regional Offices by employers, labor unions, and individual citizens. Our work is accomplished almost in its entirety through our agents who travel from our field offices to the site of a labor dispute or an election and through the headquarters employees who handle these cases in the latter stages of their processing.

Consequently, most of this Agency's budget is dedicated to personnel costs (78%) and rental payments to the GSA (12%). Much of the remaining 10%, while classified as "administrative costs", in actuality is integral to our casehandling mission. Over 80% of our travel costs, for example, are directly related to case processing, e.g., placing agents on the site of a labor dispute; transporting Administrative Law Judges (ALJ) to the city where an unfair labor practice case is to be heard; sending an attorney in our Appellate Court branch to a Circuit Court to argue an appeal. Since this mission is encompassed by a single program and appropriation, our flexibility is further limited in terms of programmatic trade-offs to accommodate budget reductions. In summary, reductions in the budget result in reductions in personnel and support costs, which, in turn, adversely impact service to the public.

REDUCTION IN FIELD STAFF

A reduction of ten percent below the NLRB's current budget would constitute a cut of $17,605,000 down to a total of $158,442,000. Inasmuch as nearly 80% of the Agency's budget is devoted to personnel costs, and much of the remainder is in fixed costs, a 10% reduction would primarily have to be absorbed in staffing. As the Agency is "field-intensive" to allow for the most efficient delivery of services, the most significant impact would be on field staffing, where 90% of the Agency's cases are resolved.

Specifically, a 10% reduction translates into 200 FTE. Proportionately, 133 FTE field staff would be lost, an equivalent of 35 furlough days Agency-wide.

Reduction of that many FTE through temporary furloughs would not be a responsible managerial move to address a long-term situation in that furloughs cannot exceed 30 days without triggering Federal Reduction In Force (RIF) regulations as well as the related provisions in the Agency's collective bargaining agreement. Hence, the FTE reduction would have to be achieved through RIFs from the outset of FY 1996, less than three months away. Further, due to the negative effect that grade and pay retention, bumping rights, retreating rights, etc. have on cost savings, the only economically feasible way to sustain the reduction would be through closure of entire offices.

CLOSURE OF FIELD OFFICES

Eight years ago the Agency undertook an examination and reorganization of its entire field office operation. The geographic boundary of each office was examined to determine the most cost effective means of handling the case work in every part of the country - county-by-county. All of the relevant demographics, including case filing densities, travel distances and travel accessibility were considered, as was the need to balance and fully utilize the managerial and supervisory structure of the field operation. That study resulted in the significant alteration of the geographic boundaries of approximately two-thirds of the Agency's Regions.

The closure of every satellite office (Albany, Washington, DC, Grand Rapids, Birmingham, Jacksonville, Miami, Houston, San Antonio, Tulsa, Des Moines, Anchorage, Portland OR, Honolulu, San Diego, Little Rock, Nashville, Albuquerque, El Paso, and Las Vegas) would result in the elimination of 133 employees - short of the target needed to absorb the 10 percent cut. Thus, it might also be necessary to close at least some Regional Offices. The additional closure of the 2 smallest Regional Offices (Puerto Rico and New Orleans) would result in a total of 45 positions. However, further analysis of current caseload demands could indicate that some larger satellite offices might remain open while additional Regional Offices might close, as the size of our offices is directly related to the number of cases processed. For the purpose of this analysis, we assume that all satellite and the 2 smallest Regional Offices would close.

Closure of these offices would result in immediate savings in space rent ($1.7 million), copier costs ($150,000), and base phone fees ($140,000). The personnel compensation and benefits for these offices is over $11,000,000.

However, assuming that the Agency is not willing to seriously reduce the quality of its service to the public by abandoning on-site investigations, then significant additional travel costs would be associated with the processing of cases in the locales of the current satellite offices. An estimate of those increased costs is difficult without an in-depth study of the precise geographic distribution of case filings now handled by those offices. That is, some of those cases already require travel away from the satellite office and the increase in cost may be limited to transportation rather than transportation and per diem. On the other hand, our satellite offices are placed in the cities and counties where the case intake density is greatest, and all of those cases would require travel and per diem not presently incurred.

Nonetheless, assuming that approximately 2,000 cases fall into this latter category, and assuming $300 airfare and 5 days per diem ($66/day min.) for every 2 cases clustered for investigation, the minimum total increased travel costs would be approximately $630,000 ($630 x 1000 trips). When considering the extra transportation costs for the cases now remote from satellite offices, an estimate of $750,000 increased travel costs is reasonable. Further, as travel consumes limited staff resources, productivity will fall.

GROWTH IN CASE BACKLOGS, DELAYS IN SERVICE

At nearly every stage of the casehandling pipeline, significant backlogs would develop. While the NLRB has experienced large backlogs in the past, they occurred at phases where cases had already been filtered out or entered formal litigation stages. A 10% reduction in funding would result in significant backlogs at the outset of the casehandling process - in cases pending investigation - as well as in all Headquarters operations which aid in determining the merit of charges filed in NLRB Regional Offices - the Office of Appeals and Division of Advice.

The estimated number of situations pending preliminary investigation would rise from 6,750 at the end of FY 1995 to 9,112 by the end of FY 1996, an increase of over 135%. The workload in the Office of Appeals, which handles appeals from regional offices' refusal to issue complaint, would rise from 702 at the end of FY 1995 to 1,333, an increase of 89%.

While the NLRB will strive to increase streamlining activities in order to accomdate a 10% budget cut, backlogs of this magnitude would result in significant delays in service to the public. Currently, the Agency's performance standard for reasonable service dictates completion of investigation at the Regional Office within 30 days. A 10% reduction in funding would increase median time to complete that task to 90 days or more.

Finally, no staff training would be possible.

CONCLUSION

We hope that the foregoing provides some insight into the adverse impact on service to the public that a significant reduction in the Agency's resources would cause. As our Justification bears out, we are considering a variety of reforms which are designed to meet the needs of labor, management and, most important, the public interest. These are vital first steps toward providing our services more expeditiously. The process afforded by the NLRB to resolve conflict is an essential contribution to an efficient national economy. It is my judgment that the President's Budget for FY 1996 will support our efforts to redeem the promises contained in our statutory mission.

NATIONAL MEDIATION BOARD

STATEMENT OF MAGDALENA JACOBSEN, CHAIRPERSON

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE. Thank you for the opportunity to submit this statement to the Subcommittee regarding the National Mediation Board's Fiscal Year 1996 budget request. The Board was created in 1934 by amendments to the Railway Labor Act (RLA), which governs labor-management relations in the railroad and airline industries.

The general purposes of the RLA are the avoidance in these industries of interruptions to interstate commerce, the prompt and orderly settlement of disputes arising out of the negotiation of new contracts, the protection of employee rights of self-organization and association, and the prompt and orderly resolution of disputes in connection with the interpretation or application of existing agreements.

Under the RLA, NMB programs provide an integrated dispute resolution process that effectively has minimized disruptions in these two key transportation modes for more than 60 years. Indeed, the NMB is unique in that it is the only Federal agency with labor-management responsibilities for, and proven experience in, the three key elements of an integrated labor-management dispute resolution process. These are: mandatory mediation of collective bargaining disputes; determination of the choice of employee bargaining representatives through elections; and the administration of arbitration of employee grievances.

The NMB's statutory authority as national mediator for the railroad and airline industries is critical to protecting interstate commerce. Strikes or other interruptions to commerce and transportation services in these industries lawfully may occur, but only after the Board has determined that its mediation efforts have been exhausted. Only rarely do railroad and airline collective bargaining disputes escalate into interruptions of commerce. About 98 percent of the cases presented for NMB mediation have been resolved without any such interruptions.

Achievements of the Past Year

During the past year, this success rate continued with agreements reached in a number of important cases. These include the recent tentative agreement, on June 28, 1995, between Continental Airlines and the Independent Association of Continental Pilots (IACP), which represents the carrier's approximately 4,800 pilots. Ratification of the tentative agreement is pending at this time. It will be the first collective bargaining agreement reached between Continental and its pilots since 1983, when Frank Lorenzo, a former chief executive officer, placed Continental into Chapter 11 bankruptcy protection and a bankruptcy judge allowed the carrier to use the filing to eliminate its labor contracts.

The Board recently also averted a threatened strike against Conrail by the Brotherhood of Maintenance of Way Employees (BMWE). In late March, expressing dissatisfaction with progress in attempts to negotiate a replacement contract with Conrail for one that was amendable on January 1, 1995, the BMWE threatened to strike on April 1, a date subsequently changed to April 8. Leaders of the BMWE's 3,000-member unit at Conrail were seeking to negotiate directly with Conrail, rather than with the National Carriers' Conference Committee (NCCC), a multi-employer railroad management entity whose members include Conrail. Complicating problems were ongoing lawsuits in which some rail unions sought a court order to force carrier-by-carrier negotiating, a move opposed by the NCCC and its member railroads.

On March 30, the Board received an application from the NCCC requesting mediation between all the railroads it represents and the BMWE. The BMWE, whose pending lawsuit sought separate or "local" negotiations with individual railroads opposed the move. Using its authority under the Railway Labor Act, the Board preserved its neutral status in labor-management disputes by invoking its mediation services on its own volition for the collective bargaining process between the BMWE and Conrail, as well as for any others between the BMWE and the carriers represented by the NCCC.

In taking this action, the NMB said, "This invocation of mediation by the NMB does not constitute a determination of whether the issues properly are to be negotiated on a 'national' (multi-employer) or 'local' basis."

The Board averted yet another threatened railroad strike in June, this one by the Brotherhood of Locomotive Engineers (BLE) unit at the New Jersey Transit Rail System. Local leaders of the 281 BLE-represented locomotive engineers at New Jersey Transit announced they would order a walkout on June 30 unless their contract dispute that was in NMB mediation was either settled, or declared to be at an impasse, which would lead to an NMB-ordered 30-day cooling-off period after which the parties would be legally free to engage in self-help.

The Board convened a special mediation session between the parties. In a day long session at the Board's offices in Washington, DC, the NMB heard the respective positions of the BLE and New Jersey Transit regarding the bargaining history between the parties and the outstanding issues remaining in dispute between them. Although no resolution of the dispute was reached during the special mediation session, the parties agreed to resume mediation. The General Chairman of the BLE unit at New Jersey Transit also agreed to an NMB directive to communicate with all of the union's members at New Jersey Transit for the purpose of instructing them to refrain from engaging in the threatened job action.

A recently resolved dispute between Delta Connection carrier Comair and the International Association of Machinists (IAM) reflects difficulties in reaching agreements between regional airlines and their unions. A new four-year agreement was approved by the IAM's rank-and-file Comair members in late May 1995, but only after two previous tentative agreements had failed ratification. Comair employees represented by the IAM include

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not only mechanics, but also stock clerks, mechanic helpers, and aircraft ground handlers.

The first rejected tentative agreement occurred during direct negotiations between the parties. Subsequently, in July 1994, the Board's mediatory services were requested. Over the next four months, negotiators for the two sides essentially resolved their differences on rates of pay and most work rules, but they could not come to terms on a full union security clause sought by the IAM. In early November 1994, the IAM's negotiating team first agreed, then reversed its stance, on submitting the company's then-latest proposal to a membership vote.

On December 1, 1994, after seven consecutive days of mediation at the Board's headquarters, the union agreed to submit the company's proposal to a ratification vote without recommending that it be either accepted or rejected. The union subsequently reported the proposal was overwhelmingly rejected by its members.

In April 1995, the Board Chairman took direct control of the mediation process. A tentative agreement once again was reached and submitted to a ratification vote by IAM's Comair members. On May 22, 1995, the IAM notified the Board that IAM's members at the Delta Connection carrier had ratified the agreement.

Among other successful mediating efforts in settings of substantial difficulty were American Eagle carrier Simmons Airlines and the Association of Flight Attendants (AFA), USAir Express carrier Pennsylvania Commuter Airlines and its AFA and Air Line Pilots Association (ALPA) units, Alaska Airlines and the IAM, and a variety of regional/short line railroads and their unions.

Budget Request

Before briefly discussing some of the major cases that confront the NMB in the year ahead, let me first address our budget request. As you know, the President's Fiscal Year 1996 budget requested $8,933,000 for our agency.

For mediatory and representation services, as well as for the administration of the agency, we are requesting $5,700,000 for Fiscal 1996, compared to the $5,381,000 appropriated for the current fiscal year. The majority of this increase, $259,000 of the $319,000 total, is attributable to built-in and pay-related increases for 58 FTEs, the same FTE level as in FY 1995. Being a small agency, it is difficult to absorb built-in costs such as general and locality pay increases. The remaining $60,000 of the increase for these activities is due to operating cost increases.

For arbitration services, which include the three tribunals used by the railroads and unions to resolve employee grievances, we are requesting $2,833,000, which is $95,000 more than the $2,738,000 that was appropriated for Fiscal 1995. The additional funds for this activity are to cover an increase in the daily rate for arbitrators from $220 to $250 in FY 1995. This is the first increase in the daily rate for arbitrators in almost 14 years. Also significant is that our daily rate for neutrals will remain decidedly lower and, in striking contrast, to the $450 average daily rate received by neutrals for grievance cases in all other private sector industries. Most important, however, is that this increase is intended to reflect the Board's recognition that railroad arbitrators should be full partners in the effort to improve the efficiency and, ultimately, the cost-effectiveness of the railroad industry's grievance handling. Some improvements already made in this area are discussed below.

The remaining $400,000 of our total request of $8,933,000 is for the support of emergency boards that may be created by the President to help resolve disputes that could cause major strikes and disruptions to rail and air transportation service. This is the same amount that was appropriated for this purpose for Fiscal 1995. As in the past, any unused funds for emergency boards will lapse.

While our overall budget request reflects a four percent increase over that of last year, it follows last year's request which was six percent lower than the previous fiscal year. We respectfully suggest that this request should be placed in that context.

The Year Ahead

In addition, it is noteworthy that 1995 and 1996 will be a significantly busy time involving critical negotiations in both the railroad and airline industries. Within the airline industry, the Board will be challenged by collective bargaining cases among some of the more recognizable names in the industry, including American, Federal Express, Northwest, Delta and USAir. These cases are in addition to the growing number of cases that the Board will be responsible for handling from regional airlines.

The reason that the Board faces a particularly busy year is that we recently entered the period for negotiations between all of our major (Class 1) railroads and the various labor organizations that represent employees. Unfortunately, this round of negotiations has begun in a contentious manner. We have already received requests for our mediatory services from certain labor organizations and the rail carriers. Moreover, two major labor organizations and the rail carriers are in dispute as to whether they should bargain on a "national" or "local" basis. That issue is in court. Depending on how all of these situations evolve, it is possible that the Board's small staff and limited resources will be faced with dozens of major cases in the railroad industry alone. The seriousness of this responsibility is reinforced by observation of the recent disruptions in labor-management relations in the railroad industry of our neighbor to the north, Canada.

Customer Support and Improving Our Services

At the same time that we continue to handle our statutory responsibilities, the Board, like all Federal agencies, is reexamining its mission as part of the President's Reinventing Government Initiative. This includes addressing our mission based on "customer" input; asking whether the mission could be accomplished as well or better without Federal involvement; looking for ways to cut costs or improve performance through competition; and ways to put customers first, cut red tape, and empower employees. We are actively participating in this effort and will keep the Subcommittee fully apprised of our review.

At this juncture, nonetheless, we are pleased to report that there is, and has been, broad-based customer support for the Board's mediation, employee representation, and arbitration services under the RLA. Recent evidence of this continuing support came from the findings of the Commission on the Future of Workers-Management Relations, also known as the "Dunlop" Commission. The Commission was formed by the Secretaries of

Labor and Commerce with a mandate to investigate and report its findings on three questions:

1. What (if any) new methods or institutions should be encouraged, or required, to enhance work-place productivity through labor-management cooperation and employee participation?

2. What (if any) changes should be made in the present legal framework and practices of collective bargaining to enhance cooperative behavior, improve productivity, and reduce conflict and delay?

3. What (if anything) should be done to increase the extent to which work-place problems are directly resolved by the parties themselves, rather than through recourse to state and Federal courts and government regulatory bodies?"

The Dunlop Commission completed its work late last year and released its final report January 9, 1995, which concluded:

> "Despite differences of interest and experience, the major representatives of labor and management governed by the Railway Labor Act responded unanimously that this Commission should not recommend any changes to the Act."

However, testimony during the hearings indicated interest by several parties in some improvements in the RLA process and the Dunlop Commission directed representatives of labor and management in each transportation mode to create separate industry committees to examine and make specific recommendations on ways "to make collective bargaining operate more effectively." These committees are to submit their reports and recommendations to the National Mediation Board by March 31, 1996. We have sought input from labor and management from both industries to initiate this process. We will report back on the findings of these committees to the appropriate Congressional committees.

We welcome and will assist this effort in any way that we can. And we will give serious consideration to whatever recommendations they might make. In the interim, we are not sitting back, waiting for these reports, we are examining the agency and making changes.

Internal Restructuring and Reorganization

In accordance with the Administration's National Performance Review mandate, the Board launched its own multi-faceted program in the early months of Fiscal 1994 to review and evaluate the agency's mission, organizational structure, and policies. The Board obtained important input, both formal and informal, from a variety of sources.

Independent focus groups were used to obtain candid comments and suggestions from our customers on their assessments of the Board's services, plus their preferences for the agency's priorities. Each focus group was directed by a neutral facilitator and participants included a broad spectrum of the agency's customers, including representatives from labor, management, and neutrals.

As a result of that program, some important changes already have been made, including certain key internal restructuring, while others are in the implementation stage. Changes to our internal structure are intended to deal not only with suggestions made by our customers at the focus group meetings, but also to improve the efficiency and cost effectiveness of our operations. Among the changes we have initiated are the bifurcation of the human resource/administrative functions from the labor-management liaison functions. Previously one office directed all of those functions, resulting in certain inherent customer service inefficiencies.

By using professionals with specialized expertise to primarily focus on labor relations (external customers) or human resources/administrative (internal customers) we believe that our resources, both fiscal and human, can be better utilized and result in improved public service. These changes have been implemented without additional cost to the government.

We have also created and published a "Customer Service Plan" that will track our performance against our stated objectives. A chief objective of our plan is to simplify and expedite the handling and resolution of all disputes.

For example, the Board has implemented a policy that every request for mediation or employee representation services will be responded to within no more than three business days after receipt of the request, and that a specific NMB investigator will be assigned to each case within no more than five business days of docketing.

The Board further has established, and made it known to labor and management parties through the Customer Service Plan, an agency goal of completing within 90 calendar days at least 90 percent of all representation cases that do not involve a request for Board-level action. The NMB's staff has been directed to submit its recommendation to the Board on at least 90 percent of Board-level cases within no more than 180 calendar days from docketing. Board Members, in turn, have committed to issuing their response within an additional 30 calendar days. The Customer Service Plan also provides that arbitrators compensated by the NMB will be sent their payments within 14 days following the NMB's receipt of an appropriate voucher. Attached as Exhibit A are graphs that reflect our success in meeting our objectives of expediting the handling of our mission-related responsibilities.

Over the past year, the agency, in our view, also has made significant progress in addressing both actual and perceived shortcomings in the adjustment of railroad grievances. There are three types of tribunals used by the railroads and unions to resolve employee grievances. These are the National Railroad Adjustment Board (NRAB), special boards of adjustment, and public law boards.

The NMB does not have direct control over the number of cases submitted to these tribunals for grievance arbitration. Rather, the NMB has administrative responsibility for certain aspects of the creation and fiscal management of the various tribunals that hear and decide grievances in the railroad industry. Nonetheless, the approaches taken by rail labor and management, in conjunction with the NMB, can have a bearing on the efficiency, and thereby cost effectiveness, of the railroad industry's grievance handling.

With this in mind, the NMB began regular discussions with rail labor and management last year to develop a plan that would include a review of current policies and practices regarding dispute resolution by the three tribunals. Consequently, much has been done in the past year to address the critical need to expedite the handling of grievances in the rail industry in a prudent and cost effective way.

With the NMB's encouragement, rail labor and management agreed to revive the "Section 3" Committee, consisting of designated presidents of rail unions and principals from rail management. This Committee originally was formed in 1986 and it reached agreement on a number of recommended changes in a report dated February 18, 1988. Unfortunately, for a variety of reasons, this Committee stopped meeting shortly after that report was issued and many of its constructive recommendations were never implemented.

One of the first developments that occurred with revival of the Section 3 Committee was an agreement by the parties to dramatic changes in the NRAB's rules that will improve the efficiency and cost-effectiveness of grievances submitted to this tribunal. The Section 3 Committee also reaffirmed the importance of involving the railroad arbitrators in the effort to reduce the combined number of pending railroad grievances at the three tribunals and to improve the efficiency of grievance handling. Toward this end, a series of focus groups were held with the arbitrators during 1994 that provided information which already has helped to increase the number of awards issued by all three tribunals.

Also significant in this area of activity are two developments spawned within the agency itself last fiscal year. First, consistent with the National Performance Review mandate, the NMB formed a task force to investigate the nature of pending grievances and their sources.

Since April 1994, the task force has met with 10 of the largest railroads and various labor representatives on those properties to facilitate alternative dispute resolution (ADR) approaches to grievance handling. This task force looked at the options for expedited handling, such as grievance mediation at early stages of the grievance process, precedent-setting arbitration boards, reducing the claims to issues, requiring arbitrators to issue bench decisions, agreeing to waive oral hearings, reducing the size of submissions and using the NMB's roster for selection of additional arbitrators to resolve grievances.

As a result of the task force's efforts, precedent-setting boards are in the process of being established by the parties.

Furthermore, NMB staff mediators underwent specialized training on grievance mediation. To ensure success in this area, the cooperation and participation by the parties is imperative. Therefore, the NMB conducted a joint grievance mediation training conference on August 30, 1994, which was presided over by an expert in the field of grievance mediation. The potential value of this approach to "minor" disputes is great as resolution of ongoing problems allows mediators to become peacemakers during the term of an agreement.

In an effort to improve record-keeping of Section 3 activities, the NMB also has integrated a new case tracking and core financial system. The new system provides data that enables the parties to consolidate similar issues and to reexamine their pending caseload. As a result of the parties' cooperation, there are indications that this system has reduced the number of cases filed.

Additionally, the new case-tracking system enables the NMB to identify arbitrators who have cases outstanding for an excessive period of time. On December 15, 1994, the NMB, on behalf of the Section 3 Committee, issued a notice to all railroad arbitrators that a new policy regarding the arbitration lag time would become effective on April 1, 1995. That policy provides a maximum of six months between the date of a grievance hearing and issuance of a proposed award. Those arbitrators who are unable to satisfy the six-month requirement after April 2 will not be authorized to hear any new cases until all proposed awards on cases older than six months are released to the parties.

This completes the NMB's statement. If you have any questions, the Board will be happy to answer them.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Finally, you asked what effect a 10 percent reduction would have on our budget. If confronted with a severe budget reduction, we would initially freeze hiring for vacant positions while we reexamined our staffing needs and the prospects for consolidating responsibilities. We would also have to consider reducing the number of days that we currently allot to neutral arbitrators for the handling and resolution of railroad grievances. Cuts of the 10 percent magnitude would pose serious difficulties, and our final balancing of funding for mediatory services versus arbitration of railroad grievances would be based on our statutory mission and the complexity of the current round of negotiations that is ongoing in the railroad industry.

We would welcome and appreciate the opportunity to discuss our contingency plans with you and/or your staff in more detail. Thank you again for the opportunity to present the statement.

OCCUPATIONAL SAFETY AND HEALTH REVIEW COMMISSION

STATEMENT OF STUART E. WEISBERG, CHAIRMAN

Mr. Chairman, and members of the subcommittee:

It is a pleasure to provide information for the record on the budget request of the Occupational Safety and Health Review Commission. The Commission's request is for $8,127,000 and would support 74 FTE's, a decrease of one from the expected Fiscal Year 1995 average level of 75.

This budget is critical to restoring the effectiveness of the Commission and the increase will go to replacing retired Administrative Law Judges, upgrading technology and providing needed training. These actions are essential if the Commission is to improve the timeliness of its case dispositions, which declined significantly in Fiscal Year 1994 due to attrition among its judges and inadequate funding to hire and train replacements.

The Commission is an independent, adjudicatory agency created by the Occupational Safety and Health Act of 1970. Its sole statutory mandate is to serve as a court providing just and expeditious resolution of disputes between the Occupational Safety and Health Administration (OSHA) and employers charged with violations of federal safety and health standards. The Commission was designed by Congress as an agency completely independent of the Department of Labor to provide a check on OSHA's enforcement power and to assure that employers could appeal and receive relief from any arbitrariness in the exercise of that power. In fact it was the provision that established the Commission (the "Javits Compromise") that ended the stalemate in Congress and led to the Act's passage.

Although completely independent of OSHA, our workload is strongly influenced by the nature of OSHA's enforcement activity. Thus, OSHA's emphasis on more serious workplace hazards and the consequent increase in fines will almost assuredly translate into a greater workload for the Review Commission in terms of more complicated cases, longer trials and, from the employer's perspective, harder fought cases with higher economic stakes. This change is part of a trend that began in the 1980's, but which continues today. For example, OSHA reported a first quarter increase in willful citations it issued from 173 last year to 385 in fiscal year 1995 -- a 123 percent increase. These willful cases are routinely contested and are very likely to go to trial. It appears that the Commission is likely just beginning to feel the impact of this on its workload.

On the other hand, timely case resolution for employers, and the abatement of occupational hazards do not occur until the Commission issues its final decisions and orders. For this reason the number of agency judges and our ability to provide speedy adjudication is of the utmost importance to providing prompt justice and assuring worker safety.

Fiscal Year 1996 Budget Request

The request contained in the President's budget, $8,127,000, would support 74 employees and would include 16 judges, a net increase of two judges above the number we can afford in fiscal year 1995. Sixteen judges, however, would be fewer than the 19 authorized in 1991 when the agency's trial workload was less than that anticipated for fiscal years 1996. To reduce our overall personnel ceiling, we will eliminate two support positions at the end of fiscal year 1995, and one in fiscal year 1996. This will also allow us to continue reducing overall staffing in fiscal year 1997.

As I noted at the outset, additional judges are essential if the Commission is to restore its effectiveness, which as we will show later, declined significantly in fiscal year 1994. This situation is in marked contrast to the improvement in the rate of case resolution we reported for fiscal year 1993, before we lost three judges. Additional judges would also allow us to revitalize the "settlement judge" program, a concept which the Commission pioneered and which has proven very successful in resolving disputes without the need for a trial.

When combined with internally generated savings, the requested funding level would also allow us to make modest investments in our people and our technology, without which our planned streamlining, and service improvement efforts cannot proceed.

Commission Strategy

Modest investment is critical to our ability to implement the Commission's strategic plan (See Attachment I), which includes the following major goals.

- ***Improve Public Service*** -- We will emphasize the timeliness of administrative law judge and Commission decisions and the user friendliness of our processes. Three major efforts illustrate what we are trying to do. First, we hope to cut by 30 percent the average time that it takes our judges to try a conventional case and reach a decision. Second, we are developing an alternative E-Z trial process for less complex cases, which should reduce the time and money employers must invest to contest OSHA cases -- particularly for those employers who wish to present their own cases rather than hiring attorneys. Our draft proposal as published in the Federal Register is included as Attachment II. Third, we are working to make all our processes more easily understood. To this end, we have completed a new Guide to Review Commission Procedures which reduces the rather complex language of our rules to plain English. A copy of this Guide is included as Attachment III. The next step will be to undertake a complete revision and simplification of those rules.

- ***Modernize Information Management*** -- We are modernizing our computer hardware and software and are developing a new case management /case tracking system which will automate routine processing functions and allow cases to move electronically from docketing clerks to our judges and other Commission offices and ultimately into our permanent case records. This will help us move cases more quickly, improve our performance measurement systems, facilitate reengineering, and reduce our costs.

- ***Enhance Human Resource Management*** -- We are revising our training, performance management and reward systems to emphasize customer service, staff development, continuous improvement, and cost savings.

Financial Perspective

To put our fiscal year 1996 request in perspective, it is necessary to describe our plans for the coming year and recount some recent history. In fiscal year 1994, the Commission faced a very difficult financial situation. The root cause of this financial squeeze was a major increase in rental costs in Fiscal Year 1994 caused by a forced relocation of our Washington Headquarter's Office. Our rental costs increased by nearly $350,000. This and other operating cost increases were never reflected in our budget, with the consequence that we are experiencing a deterioration in effectiveness, resulting from the necessity to reallocate funds for this purpose. This is a major concern to us and one which cost-cutting alone is unlikely to alleviate.

Thus, a successful effort to find savings and control our operating costs (see Attachment IV), has enabled us to replace only one of the three judges lost during fiscal year 1994. This will mean that with a growing backlog of large time-consuming cases, we will continue to experience a degradation in our ability to promptly adjudicate and decide cases.

Our cost controls did allow us to finish fiscal year 1994 in the black without an anticipated furlough, but to do so required us to freeze hiring, and delay bringing on our new executive director, who is spearheading our planning and cost savings efforts. We were also forced to eliminate all training for the second year in a row, cut back severely on travel, delay supervisory visits to our regions, and virtually eliminate performance awards. Even these measures would have been ineffective if my position, and those of my chief counsel and secretary, had not been vacant for most of the first two quarters and had we not delayed replacement of antiquated computer and reproduction equipment. Consequently, it was only late in the third quarter of fiscal year 1994, after delaying some long and costly hearings and suspending all but emergency expenditures for six weeks, that we were able to conclude that a staff furlough would be unnecessary.

Mission Impact of Cutbacks

Together, these cutbacks had a variety of negative impacts. Most importantly, case dispositions were off for fiscal year 1994, while the length of time required to handle cases skyrocketed.

For example, despite efforts to improve productivity to compensate for a reduced number of judges, we held only 154 hearings in fiscal year 1994 as compared to 190 in fiscal year 1993 and well over 200 in previous years. For disposition of cases prior to trial, the judges disposed of 200 fewer cases in fiscal year 1994. Meanwhile, for fully adjudicated cases (those that go to trial) the average time from receipt until our judges reach their decisions ballooned from 415 days in fiscal year 1993 to nearly 530 days thus far in fiscal year 1995. All in all, 75 percent of recent trial cases took more than one year to reach disposition, as compared to 57 percent in fiscal year 1993 and 61 percent in fiscal year 1994.

Thus, we believe the adjudicatory process is taking entirely too long -- not more than a year should elapse from the time of receipt of the vast majority of cases until their disposition by a judge. Much of the increase in trial cycle time occurs after a trial is held. In fiscal year 1993, a decision was written and issued by a judge within 189 days on average after the hearing was conducted. In fiscal year 1994, this time increased to 250 days and thus far in 1995 it is averaging 236 days despite efforts to expedite the process. The reason is that a large number of bigger more complex cases are taking longer to write and exceeding the productive capacity of our judicial workforce.

Considering these facts, we have set as a major objective in our strategic plan, the reduction of disposition time for tried cases to an average of one year. Our chief judge and our executive director have formed a team to work on this objective, but we believe we must also add additional judges to achieve this and other customer service objectives.

As I noted earlier, the shortage of judges has also caused us to limit our settlement judge program. This process which was studied by the Administrative Conference of the United States (ACUS) was shown to be a valuable alternative to a formal trial. Under this program a settlement judge is appointed to meet with the parties to mediate the dispute. As ACUS pointed out, this process requires the investment of time, and the specialized knowledge of safety and health law and legal precedent, that our judges possess. To encourage settlement, the judge must study the facts and explain to each party the weaknesses in their respective arguments so that each can reach a rational decision. Since this process involves a much more assertive role by the judge, the settlement judge cannot subsequently render a decision, should the case fail to settle. At this point, another judge must be assigned, with the obvious additional demands on our resources.

Thus, even though this process can, in a select group of large cases, resolve disputes more amicably and without a costly trial, our ability to use it is constrained by our judges' already heavy workload. In 1994, we appointed settlement judges in only five cases, but all five cases were successfully settled. With adequate funding, we would use this mechanism much more often in fiscal year 1996.

Case Complexity

As noted earlier, our case management problem is aggravated by the fact that our cases continue to grow each year in length and complexity. Our new cases involve a greater number of more serious citations which carry much higher proposed penalties, with the consequent heightening of resolve on the part of employers to resist both higher payments, and judgments that could affect their civil liability. The Labor Department's strategy of concentrating on more serious workplace hazards is adding to this trend. This means that our judges must spend more time handling pre-trial motions, more time in the courtroom, and more time researching and writing decisions. Attachment V provides a sampling of cases that illustrate this increase in complexity. The first example (Beverly Enterprises) involves a contentious issue regarding whether or not the employer provided safe methods for lifting nursing home residents. Unlike the typical one day trial of years past, this group of cases involved six weeks of trial in five geographical locations and resulted in 5,200 pages of transcript. Travel and transcript costs were in excess of $13,000, which is approaching 10 percent of our yearly funding for these purposes. This case also required the full time attention of the assigned judge for more than 18 weeks, through the completion of the trial.

Some statistics that help to more generally illustrate the trend toward greater case complexity are that (1) the proportion of our cases with serious citations grew from 69 percent in 1991 to 75 percent in 1993 to 78 percent in fiscal year 1994, while the proportion of new cases with willful violations has grown from about 7 percent of new cases in fiscal 1993 to more than 11 percent in the first half of this fiscal year, (2) the number of items (safety violations) per citation increased from 7.9 in 1991 to 9.1 last year and 9.8 in fiscal year 1994, and (3) the number with large fines (those over $75,000) has increased from a total of 78 such cases in fiscal year 1993 to an annualized rate of 220 such cases during the first half of fiscal year 1995.

Finally, case complexity is reflected in the number of hearings going beyond a single day, which is illustrated by a one year increase of 37 percent in the length of trial transcripts from 226 pages on average per hearing in 1993, to 309 pages last year.

Thus, a shortage of judges and an increase in case complexity have severely impacted our effectiveness.

Other Negative Impacts

In addition to limiting judicial hiring, our ability to adequately accomplish our mission has been affected by other austerity induced cutbacks.

- Trial, evidence, and case management training -- the minimum training needed for new judges -- have not been provided to three judges hired in fiscal year 1993, and one hired in January. Meanwhile productivity enhancing computer hardware and software were unavailable to most of our judges.

- Training on new technical standards, and on the underlying technology relevant to these standards, has not been provided to our judges, our commissioners or the attorneys that support them. Some progress was made on training relevant to certain older standards at the end of 1994, but the training deficit is still large and troubling.
- Computers and related equipment which could efficiently run current versions of the most common and useful software could not be purchased and therefore will finally become available to all those in need of this technology only at the beginning of the fiscal year.
- Implementation of our computer network which holds promise of significant cost savings through the use of E-mail and the reengineering of our most time-consuming mission-related work processes has been delayed.

Specific Funding Requirements for Fiscal Year 1996

Thus to operate efficiently in 1996 and beyond while continuing to reduce our approved staffing level, we need to

- increase the number of judges to 16 while bringing our FTE ceiling down to 74. This will increase our costs by approximately $260,000 for salaries, benefits, transcript and travel costs for two judges,
- provide annual cost-of-living pay increases at a cost of approximately $100,000,
- complete our computer network, replace our remaining antiquated computers, incorporate CD-ROM technology for use in legal research and purchase case management software at a cost of $85,000,
- implement a modest incentive awards program at an annual cost of $25,000, which would be less than half a percent of salaries, and far below what most agencies spend; this would be targeted to employees that help us realize either cost savings or improved service to the public,
- reinstitute a limited program of technical, managerial, and job proficiency training which has been almost totally eliminated for several years. This would enhance performance and cross-train personnel at a cost of $30,000 -- less than one-half percent of payroll -- which is far less than well run private firms spend on training, and
- continue reengineering efforts we have begun in fiscal year 1995, which will require some contract computer programming at an estimated cost of $25,000.

Conclusion

Without adequate funding a variety of negative consequences will occur. For example

- production and timeliness of case processing will continue to deteriorate.
- efforts to redesign and reengineer our processes will proceed more slowly.

- judicial training, cross-training of administrative staff, executive development to fill key expected retirements, and needed computer training will be unavailable, which will continue to reduce staff effectiveness and delay our efforts to eliminate positions.

The Commission is making every effort to automate and streamline operations, reduce costs and reengineer major processes, but both our current mission effectiveness and any dividends in the future depend upon adequate investment today. Without the requested increase we can neither function effectively today, nor can we improve in the future.

[Clerk's note.--Due to their volume, the above mentioned attachments have been retained in subcommittee files.]

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Senator Specter: **What would be the effect of a 10 percent reduction in your current agency's budget?**

Mr. Weisberg: Unlike most larger government agencies which have either grant programs, contractual support or other discretionary activities that can be scaled back to reduce spending, cutting the budget of a small agency like the Commission by 10 percent, would have immediate and very predictable negative impacts on both the agency's ability to perform its mission, and its highly skilled workforce. It would also arrest our efforts to modernize our technology and systems, to streamline our operations and to reengineer our key business processes all with the aim of improving our service to the public.

The Commission's budget is completely dominated by three expenditures -- personnel salary and benefits, office space rental and the trial related costs of judicial travel and hearing transcripts. These items account for roughly 95 percent of our fiscal year 1995 budget and none of these items are easily controlled without impacting our mission. Thus significant cuts in these categories, which would be unavoidable, would translate directly into reduced effectiveness, and as noted in our statement for the record, effectiveness is already suffering due to inadequate funding.

Put another way, because the Commission was already operating without adequate numbers of judges, without essential technology investment, and without adequately maintaining the technical expertise of its staff, any reduction translates immediately into a further degradation in our ability to perform our mission and delays in our efforts to improve.

To be specific, to absorb a 10 percent cut from our fiscal year 1995 funding, we would first have to drop our plan to fill two vacant judge's positions, and in addition reduce our workforce by more than 15 percent early in the fiscal year. We would, consequently, be able to provide only minimal notice to those employees who would be let go.

Among the many positions eliminated would be at least four judges (and their support staff), bringing our total number of judges to a level well below that needed to handle even our most conservative estimate of our fiscal year 1996 caseload. It should be remembered that we have almost no control over our trial workload, which is completely driven by our statutory mandates and external factors.

Thus the reduction in staffing would mean that our already degraded case processing times (see page 4 of our statement) would continue to grow, as would our backlog of cases. This would be particularly troublesome given the fact that, as noted in our statement and justification, we are receiving an increasing number of large cases requiring significant blocks of our judges' time to hear and resolve. At a minimum then, our ability to hear trials would be reduced by 30 percent (or approximately 50 to 55 trials), while the necessity to reassign existing cases from those judges being separated, to those remaining, would further delay another 30 percent of our existing case inventory.

Such delays have a variety of negative impacts. First, focus groups with litigants and their representatives indicate that employers generally want their cases heard and resolved as rapidly as possible. But, our efforts to expedite cases would founder, while cycle times would accelerate under this scenario. And more importantly and unlike other worker protection disputes, under the OSH Act, *delays in Commission cases mean that hazardous conditions can go unabated and additional employees can be injured or killed before a final decision is issued.*

A forced staff reduction would also involve the closure of two of our four regional offices and would for certain locations mean spending more (not less) on travel to hold trials in reasonable proximity to employer's places of business. In other locations it would mean litigants would travel much further to attend trials.

We would also have to make many other cuts which would effect current performance and future improvements including (1) delaying our E-Z trial pilot aimed at easing the burden of contesting citations for small employers, (2) eliminating all technical and judicial training, (3) putting on hold the purchase of needed information processing equipment, and (4) delaying development of a new case tracking/case management system needed to improve judicial and support staff productivity.

The elimination of training funds would mean that computer related training, needed technical training for judges and attorneys, and cross training for support staff would continue to be put off, with the effect that improvements in productivity necessary to sensibly reduce staffing and improve performance would not be achieved.

PHYSICIAN PAYMENT REVIEW COMMISSION

STATEMENT OF GAIL R. WILENSKY, CHAIR

Mr. Chairman, I am pleased to submit this testimony reporting on the activities and work plan of the Physician Payment Review Commission. Established in 1986 to advise the Congress on Medicare physician payment reform, the Commission's 13 members bring together the perspectives of physicians, nurses, consumers, purchasers, health plans, and economists. With the expertise of its Commissioners and a strong analytical staff, the Commission has established a track record of providing useful and timely advice to the Congress. Its work has been strengthened by a tradition of working toward consensus in shaping recommendations on difficult and sensitive issues.

When the Commission first set to work, it consulted with the Congress to define the goals for Medicare reform and to frame the issues of concern. The recommendations it later presented to the Congress formed the basis for the payment reforms enacted in the Omnibus Budget Reconciliation Act of 1989 (OBRA89). OBRA89 also directed the Commission to monitor the impact of reform on beneficiaries and advise the Congress on setting standards for expenditure growth and updating fees under the Medicare Fee Schedule. In OBRA90 the Congress again expanded the Commission's mandate to consider policies related to controlling health costs faced by employers, financing graduate medical education, reforming the medical liability system, ensuring quality of care, and improving access in underserved areas and for Medicaid beneficiaries.

In its work plan for fiscal year 1996, the Commission combines its responsibilities with respect to the current Medicare program with plans to analyze new issues now receiving serious consideration by the Congress. Its challenge will be to develop policies that reflect the dual priorities of reducing federal spending and reorienting Medicare to take advantage of innovations in the private sector. Meeting that challenge will require analytic support to design effective policies and to assess their implications so that changes reflect congressional intent.

Commission Reports to the Congress. The Commission is required to submit five reports each year, the most extensive being its annual report. This year's report, submitted last March, contains two major sections: one devoted to the Medicare and Medicaid programs and one focused on the changing market for health services. Chapters on the Medicare risk-contracting program, coverage decisions, telemedicine, and payment rates of Medicare and private payers consider Medicare issues in the context of the evolving marketplace. Other chapters reflect the Commission's ongoing work to monitor implementation of physician payment reform, assess the impact of the fee schedule, and recommend improvements. The final chapter in this section reviews the implementation of a growing number of statewide Medicaid demonstrations.

The report then goes on to provide systematic information on the dynamics of the health care market with chapters on provider-driven integration, relationships between health plans and providers, network development in rural areas, monitoring quality and plan performance, and the changing physician labor market. Policy issues arising from delivery system changes are outlined in chapters on antitrust policy, insurance market reform, medical liability reform, and development and use of practice guidelines.

In addition to the annual report, the Commission prepares more focused reports, requiring substantial analytic work. Three of these reports are related to Medicare, providing updates on access to care, assessing beneficiary financial protection, and presenting recommendations on setting Volume Performance Standards (VPS) and updating fee schedule conversion factors. In addition, the Commission comments on the President's budget. This past year, the Commission also responded to a congressional request by issuing a special report examining issues related to Medicare payment for critical care and trauma services. In addition, the Commission has testified eight times in this fiscal year on a range of issues related to Medicare and the broader health care market.

Commission Work Plan. In the year ahead, the Commission plans to take up new issues affecting Medicare and Medicaid and to study changes in the delivery system. Its appropriation request submitted to this Committee in February presented a detailed work plan. Since then, the Commission has been adapting its plans and priorities to congressional concerns through meetings with committee staff and briefings for Members. We believe that the Congress is well served by this process of consultation, because it allows the Commission to provide useful and timely advice as congressional deliberations proceed. I would like to highlight some key aspects of the Commission's work plan that focus on the interface between Medicare, Medicaid, and developments in the private sector.

Just as when the Commission was established, we are at a juncture where there is a need to reshape Medicare. The impetus for change comes from pressure to reduce the budget deficit, the disparity in spending growth rates between Medicare and the private sector, and the potential to increase the options available to Medicare beneficiaries. Accordingly, the Commission has planned work on each of these issues. As in the past, we will follow a strategy of developing short-term options that move the program in the direction of long-term goals. We will focus on making the fee-for-service sector function more effectively and broadening the role of managed care.

With respect to the fee-for-service sector, the Commission recently recommended changes in the VPS system that determines updates in payments under the Medicare Fee Schedule. These changes would make the VPS system more effective in slowing growth in Medicare expenditures to a sustainable level. In addition to advising the Congress on how to restructure this policy, the Commission will assess the effects of any policy changes introduced as part of its ongoing responsibility to advise the Congress on setting performance standards and updating payments.

Dynamic changes in the private sector are creating pressures to shift Medicare's focus from its roots in indemnity insurance to more innovative methods of service delivery and payment. The

Commission will explore a number of issues related to restructuring the Medicare program. These include policies to encourage participation by managed-care plans in Medicare, provide new opportunities for beneficiaries to enroll in these plans, and generate cost savings for the Medicare program. The Commission will consider how to structure a program offering multiple choices to beneficiaries, including such issues as enrollment policy, information needed to facilitate choice, and risk adjustment. It will extend its work on performance standards for plans and will examine standards for plan participation that may serve as barriers to entry. This work will build on the Commission's recommendations to change payment policies for Medicare risk contracts. The Commission may also consider how to structure competition between fee-for-service and managed-care options. Competitive bidding options explored in the 1995 annual report could provide the foundation for a more competitive system that provides choices to beneficiaries while encouraging efficiency in service delivery.

As part of its effort to integrate information on the private sector into its assessments of Medicare, the Commission will continue to examine trends and document the gap between Medicare payment rates and those in the private sector. Doing so will require continued development of its unique private-payer claims database. The Commission will also analyze changes in the volume and intensity of services, and identify changes in patterns of care. These analyses will shed light on the potential substitutions taking place across settings and types of services, the trends in service use that underlie expenditure trends, and how the dynamics of the changing market affect medical practice across managed-care and fee-for-service settings.

The Commission also plans to monitor the five-year review of the relative values used in the Medicare Fee Schedule that will be conducted by the Health Care Financing Administration as required by OBRA89. The first review will be completed next year. As part of its mandate to monitor fee schedule implementation, the Commission has set out principles to guide this five-year review. It will evaluate the results of the review and assess the impact of the revised relative values on physician payments.

Because modifications to the fee schedule are important to other payers as well, the Commission will continue to monitor the adoption of Medicare policies by others, particularly managed-care plans. Commission surveys have found increasing use of Medicare's payment policies by state Medicaid programs and private payers. Most recently, its survey of managed-care plans showed a substantial number drawing on Medicare's relative values in setting compensation arrangements.

For the past three years, the Commission has made recommendations on how Medicare could leverage its support for graduate medical education (GME) to help achieve broadly-supported goals for change in the supply and specialty mix of physicians. The Commission has been consulting with congressional staff to identify options for restructuring Medicare's direct medical education payments, and will assess the effects of these options on the number and specialty distribution of residents, as well as their impact on different types of hospitals. It will also continue to monitor the impact of the changing delivery system on the labor market for physicians.

Each year, the Commission has considered issues related to access, quality, or payment under Medicaid, selecting those that mirror congressional interests and priorities. This past year, it took a close look at state demonstrations to expand coverage and enroll Medicaid beneficiaries in managed care under Section 1115 waivers. As the Congress considers broader reform of Medicaid, the Commission is working on such topics as performance standards for a restructured Medicaid program, state variation in Medicaid expenditure growth, and the impact of Medicaid reform on Medicare beneficiaries who are dual eligibles.

The Commission's work on Medicare and Medicaid is complemented by efforts to monitor the changing market. Given the increased interest in positioning the Medicare and Medicaid programs to take advantage of market changes, a systematic effort to learn about market developments has become even more important. The Commission will continue to update its information on the dynamics in the market focusing this year on the relationship between market changes and the Medicare program. Among other activities, it plans to hold a series of meetings that draw on the expertise of managers and health care professionals in different types of health plans and in different areas of the country to delineate issues and options related to expanding choices for Medicare beneficiaries. These will inform the Commission's work on such issues as how to manage care for an elderly population effectively, criteria for plan participation, plan performance standards, enrollment policies, managed care involvement in medical training, and implications of broadening beneficiary choice in markets with both high and low managed care penetration.

Appropriation Request for Fiscal Year 1996. The Commission requests $4,100,000 for fiscal year 1996, $76,000 below the current budget. A concerted effort to increase operational efficiency and to fine tune its budget in recent years allowed it to request a 5.5 percent reduction for FY 1994 and a steady state budget for the current fiscal year. In total, these actions will have reduced the Commission's FY 1996 budget by nearly 9 percent relative to its FY 1993 budget.

Funds for staffing and computer services comprise the largest portion of the proposed budget. Although Congress has expanded our workload several times, recruitment of highly trained and productive staff has enabled us to respond to our mandate in a timely manner. This experience has shown that the Commission's effectiveness requires that much of its work be conducted or managed by senior professionals. To absorb the proposed funding decrease, however, the Commission will slow recruitment, entering FY 1996 with one less filled staff position than anticipated.

The Commission's greatest success in increasing operational efficiency has been in its mainframe computer and programming services. Although the increased sophistication of the Commission's quantitative work implies that these activities will continue to require substantial resources, the Commission has made a concerted effort in this budget category to develop more cost-effective approaches. By using more efficient programming methods, streamlining data sets, and closer monitoring of contracted programmers and staff, it has reduced its computer budget by over 40 percent in the past three years. This has been accomplished even though the number of databases used and the amount of quantitative analyses undertaken have increased substantially.

The third major category in our budget is policy analysis and data development, funds used primarily for outside contractors that can develop new data sources and make specialized expertise available. This past year, the Commission funded surveys of both physicians and managed-care organizations to learn how system change is affecting the way medicine is organized and practiced. In the coming year, we will build on these projects, through targeted surveys and site visits, to provide a systematic assessment of the implications of market reforms for the private sector and for the Medicare and Medicaid programs.

The Commission is considering a number of additional projects related to managed care. These include surveying Medicare beneficiaries enrolled in managed care plans about their access and satisfaction; developing clinical indicators of access that can be applied to encounter data collected by managed care plans; surveying private payers on innovative methods for managing fee-for-service care; gathering data on the use of telemedicine in managed care; and learning more about the processes used by these organizations to make decisions to cover new or experimental services. Surveys of Medicaid programs about methods for setting capitation rates and policies related to Medicare beneficiaries who are dual eligibles are also planned.

The Commission has also benefitted from drawing on the judgment of experts who can help solve difficult policy questions or guide the Commission's analyses. As I mentioned earlier, it plans to convene expert panels to focus its work on the implications of the changing market for Medicare and to broaden its understanding of the relationships between managed-care plans and physicians. It will also consult a panel of physicians concerning clinical indicators of access that can be used with Medicare claims or encounter data to detect access changes for beneficiaries with specific medical problems.

The Commission's proposed budget for FY 1996 reflects its effort to restrain costs while ensuring adequate funding to carry out an ambitious work plan. Given the importance the Congress has placed on reforms in Medicare and Medicaid, and the analytic support required to design the changes needed, the Commission looks forward to a productive year assisting the Congress.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

MR. CHAIRMAN: What would be the effect of a 10 percent reduction in your current agency's budget?

DR. WILENSKY: The Commission recognizes the importance of restraining growth in discretionary spending to meet federal budget goals. For this reason, as well as responsible management, it has strived over the years to review each item in its budget closely and to seek out more efficient ways of meeting its responsibilities to the Congress. This effort has reduced the Commission's FY 1996 budget by nearly 9 percent relative to its FY 1993 budget. Given this self-imposed restraint during a period when the Commission's mandate has been expanded, a 10 percent reduction in the Commission's FY 1996 appropriation level would lower the Commission's ability to obtain information that has informed its work in the past.

Under these circumstances, the Commission would set its priorities as follows. It would carry out the work required to submit the annual reports mandated by the Congress each year. These include specific reports on Medicare Volume Performance Standards, monitoring Medicare beneficiary access to care, monitoring Medicare beneficiary financial protection, and commenting on the President's budget. The Commission would also set priorities for the issues to be addressed in its annual report to Congress. Of the topics on the Commission's work plan, it would pick those issues of greatest concern to the Congress including: the range of questions involved in broadening choices for Medicare beneficiaries, performance standards and expenditure growth under a restructured Medicaid program, revising the method for setting Medicare capitation payments, improving payment policies under the Medicare Fee Schedule, and assessing options for financing graduate medical education. Reductions in the Commission's budget would prevent it from carrying out some types of projects that it currently has planned to support decisionmaking on the above issues, but these issues would still remain priorities.

The Commission would make every effort to retain its staff, if faced with budget reductions, by attempting to absorb any decrease through reduced funding for outside contracts. Obviously, given the workload implied by the Commission's congressional mandate and the already small size of the Commission staff, it would be preferable not to have to impose staff reductions. The Commission has learned from experience that both the quality and efficiency of its analytical work are generally higher if conducted by Commission staff or closely managed by staff. Given this, the Commission would be better able to meet its responsibilities to the Congress if it maintained its staffing level and applied any reduction to other budget categories. Since funding for outside contracts would likely absorb the largest portion of the reductions, the Commission's ability to gather information needed to monitor the impact of changes in Medicare and Medicaid would be diminished, as would its ability to better understand the effects of the evolving health care system on Medicare and Medicaid and to integrate that information into its policy advice to the Congress.

PROSPECTIVE PAYMENT ASSESSMENT COMMISSION

STATEMENT OF STUART H. ALTMAN, CHAIRMAN

I am pleased to submit this summary testimony for the record describing the recent work of the Prospective Payment Assessment Commission (ProPAC), presenting our appropriation request for fiscal year 1996, and describing the effect of a 10 percent reduction in our budget.

COMMISSION RESPONSIBILITIES

The Commission was created in 1983 to serve the analytic and information needs of the Congress and to provide objective judgment from a knowledgeable group of citizens. Initially, our responsibilities were limited to the Medicare hospital prospective payment system (PPS). Over the years, however, the Congress has expanded our mandate to include all Medicare inpatient and outpatient hospital services, skilled nursing facility, home health, ESRD dialysis facility care, and Medicaid hospital payment. We also have been actively involved in identifying ways to improve Medicare's managed care programs.

At the time ProPAC was created, Medicare spending was growing very rapidly, the trust funds were approaching bankruptcy, and the Congress was enacting a new way to pay hospitals to slow the rise in expenditures. Congress was especially interested in creating an alternative source of accurate and timely data and advice to help it enact and update the changes in Medicare policies it desired.

I believe the circumstances that led Congress to create ProPAC in 1983 are similar to the situation today. Medicare program spending is again growing rapidly, with outlays of $176 billion expected in 1995. About two thirds of this spending is for facility services within ProPAC's mandate. The Congress is again considering large cuts in spending growth in the short-term, as well as fundamental changes in the Medicare program over the long-term. The policies that determine Medicare spending growth, as well as the distribution of the funds across providers and geographic areas, are very complex and generate substantial interest among the public and the specific sectors affected. To accomplish its goals, the Congress needs to have good information to modify this politically sensitive program. I am confident that when you speak to the relevant committees, they would agree that ProPAC has provided the timely information requested by the Congress.

The need for relevant information and objective analysis and advice has increased in recent years, as the various interest groups have become very sophisticated in presenting data to bolster their positions before Congress. This technique was especially prominent during the debate on health care reform. On many occasions, committee staff turned to ProPAC to help evaluate the alternative proposals and supporting information.

As the Committee is aware, the Commission is an unusual organization. Although we are an independent agency of the Congress, we obtain our annual appropriation through the Executive branch appropriations process since our funding comes from the Medicare trust funds. We also differ from other agencies in that the Commission's authority resides with its public members, rather than full-time government employees. The members are appointed for three year terms by the Congressional Office of Technology Assessment (OTA), following extensive consultation with the appropriate committees of Congress.

Our responsibilities, including the reports we submit to Congress, are determined by statute and by requests from committees, especially the House Ways and Means Committee and the Senate Finance Committee. In addition to our reports, we frequently testify before Congress concerning Medicare's payment policies. We also meet regularly with the staff of these and other committees to provide information on proposals they are considering. These activities have been particularly intense in the past six months as various committees have used the Commission's extensive data resources and analytic capabilities to develop briefing materials for members and to analyze alternatives to slow the growth in Medicare spending.

CURRENT WORK

We submitted our annual *Report and Recommendations To The Congress*, on March 1, 1995 and our annual report on *Medicare and the American Health Care System* on June 1, 1995. We will be submitting our report to Congress on the proposal by the Secretary of the Department of Health and Human Services for a Medicare hospital outpatient prospective payment system by the end of July. Since the beginning of the year, we have testified three times before the Health Subcommittee of the Ways and Means Committee, before the Health and Environment Subcommittee of the Commerce Committee, and we will be testifying before the Senate Finance Committee on July 19, 1995.

In addition to the reports we have submitted to Congress and the testimony we have provided in the past six months, we have prepared numerous briefing papers and background documents for Committee members and staff. We also have had numerous meetings with Senate Finance Committee and House Ways and Means Committee staff as they consider major changes in Medicare's payment policies for hospital and other facility services. In the past three months, a substantial portion of our analytic resources has been devoted providing the staff of these Committees with the information they need to evaluate policy options to slow the growth in Medicare spending called for in the budget resolution.

FISCAL YEAR 1996 APPROPRIATION REQUEST

For fiscal year 1996, ProPAC is requesting an appropriation of $4,656,000, a reduction of $11,000 from our 1995 amount. Since 1988, ProPAC's spending has increased at an annual rate of only 3.0 percent, less than economy-wide inflation. During this time, Congress greatly expanded our responsibilities. Our budget request for fiscal year 1996, however, reflects only inflation-related increases in salaries and benefits. These increases are more than offset, however, by spending reductions in other categories.

The major item in our budget is staff salaries and benefits. By statute, the Commission can employ an Executive Director and up to 25 full-time equivalent staff. The law also requires that ProPAC follow the personnel policies of the U.S. Senate. The Commission's staff is responsible for completing the complex analytic studies that produce the information that forms the basis for the Commission's recommendations, reports, and testimony. The staff also prepares background and briefing materials for Congressional committees and regularly consults with committee staff.

The other large budget item is for computer programming and the use of the mainframe computer. We use the computer resources of the U.S. House of Representatives (HIS). We are requesting $1,175,000 for these activities. Our spending in this area has increased in recent years as the Congress expanded our responsibilities. The analyses we undertake to provide timely and relevant information to Congress are complex and require very large data bases. As our use of the mainframe computer grew, however, we were able to improve our efficiency and to negotiate a better price with HIS. We also changed our software development contractor. Consequently, we believe we will be able to maintain our level of mainframe computer use in FY 1996 while reducing our budget by about $60,000.

The remaining portions of our budget include the funding necessary for payment of Commissioners for travel and time spent on Commission business; for facilities, supplies, equipment, and travel; for communications with the public, including maintenance of mailing lists, publication of reports, expenses required by open meetings of the Commission, and for other administrative expenses associated with facilitating the work of the Commission. The General Services Administration (GSA), under contract to ProPAC, provides personnel, payroll, and accounting services. GSA also arranges on our behalf for office space, telecommunications services, and travel services at government contract rates.

We also contract with outside organizations and individuals to provide a detailed quantitative information base for Commissioners to use in formulation of recommendations and reports. For example, the Commission's work describing cost shifting requires a contract since the information is proprietary. Our findings from this project, as well as the timely information on the recent decline in hospital costs, have been invaluable to the Congress' consideration of the hospital update factor. Another project we have recently completed examines strategies states are using in their Medicaid managed care programs to assure access. This topic is of critical importance as the Medicare and Medicaid programs encourage enrollment in managed care programs. We also are developing a project to examine payments to hospitals for the care furnished to enrollees under the Medicare risk contracting program. A listing of our recent extramural data development and research projects is included in our budget justification.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question: What would be the effect of a 10-percent reduction in your agency's budget?

I have attached to my testimony ProPAC's analytic agenda for 1995-1996, indicating possible areas we would have to defer if our budget is reduced. Our appropriation request for FY 1996 is less than our FY 1995 amount. As you can see from our analytic agenda, a 10 percent reduction in this request would require us to defer analysis of a number of important topics. As we did in developing these analytic priorities, we would seek the guidance of the staff of the Senate Finance and House Ways and Means Committees regarding any additional modifications that may be required. Major changes in Medicare policies are necessary to achieve the savings contained in the budget resolution, and it is likely that refinements of these policies will be necessary in the next year or two to respond to constituent concerns regarding access to care. My greatest concern with a reduction in our budget and staffing, however, is that short-term political and other pressures may require most of our staff resources and limit our ability to assist you develop the more fundamental changes in the Medicare program that are necessary for long-term reform.

I am aware that Congress and this Subcommittee are committed to reducing this nation's deficit and improving the operation of the Federal government. To do so, you must examine all the programs within your jurisdiction and make difficult trade-offs. In considering ProPAC's appropriation request, I hope you will consider our contributions to the Congress as it moves to rein in Medicare expenditure growth and implement fundamental changes for the future. These activities will attract a lot of attention and will require data and information to balance many competing claims. The Department of Health and Human Services, and other components within the Administration, have strong research and analytic capabilities to bolster their positions. Many interest groups have, or can purchase from consulting firms, such expertise to develop information to support their views.

For 11 years, ProPAC has served the needs of the Congress for timely and relevant data and recommendations to develop its policies and to evaluate Administration policies and information furnished by special interests. I believe the Congress needs its own source of information it can trust today, as much as at any time since ProPAC was created. ProPAC's appropriation request of about $4.7 million is a small investment to help you balance the needs of Medicare beneficiaries for quality health care with the constraints needed to reduce the deficit. I am also sure we can be helpful to the Congress as it decides how to restructure a program that will spend almost $200 billion in fiscal year 1996. In making your difficult decisions among budget requests from competing programs, I hope you will consider the value of the contributions we can make to assist the Congress slow Medicare spending growth, while maintaining access to care and developing more fundamental reforms of the program.

PROPACS's ANALYTIC AGENDA
1995-1996 PRIORITIES

I. PPS HOSPITAL PAYMENT POLICIES

A. Annual Update Factor

The minimum approach would rely on available data without additional staff analyses. The maximum would maintain the current level of effort regarding the analysis of the hospital market basket and productivity change and would use past trends to adjust for science and technology and case-complexity change. Decisions on level of effort will be made after Congress completes its work this fall.

B. IME and GME Payment

The Congress may make substantial changes in these policies, and the Commission will assess options and their possible impact and recommend refinements, if necessary. The Commission also will collaberate with PPRC on GME issues.

C. Disproportionate Share Adjustment

The Congress may make substantial changes in these policies, and the Commission will assess options and their possible impact and recommend refinements, if necessary. This may involve evaluating alternative proxies to better target the available funds to those hospitals with the greatest need. This work could interact with the work on the IME.

D. Patient-level and Geographic Adjustments: DRGs, Outlier Policy, Wage Index

Monitor prior recommendations, assess the impact of current policies, and respond to HCFA's proposed regulations. Defer further analyses of these topics.

E. Hospitals Receiving Special Treatment

Defer follow-up analysis of rural, Medicare dependent, and other hospitals performing poorly under Medicare.

F. Capital Payment Policy

Monitor and assess capital payment policy and the transition to a fully prospective capital payment system. Defer additional analyses.

II. PAYMENT POLICIES FOR OTHER FACILITIES

A. Excluded Hospitals and Units

Develop the annual update factor recommendation. Defer examination of the current financial condition of these hospitals and distinct-part units.

B. Hospital Outpatient Services

Complete the report to Congress containing the Commission's views on the Secretary's report. Defer further analysis of spending growth in ambulatory settings, methods to control volume, and differences in policies and payment levels across settings.

C. End-Stage Renal Disease

Develop the annual update factor recommendation, including the study of the costs of scientific and technologic advancement, productivity changes, and the appropriateness of the current base payment amount. Continue to examine the effects of EPO payment policies. Defer analyses of services furnished by dialysis facilities that are not included in the composite rate. Defer other analyses of spending growth for ESRD beneficiaries.

D. Home Health Services

Monitor spending for home health services and the Secretary's progress in developing her report. Analyze types of visits and costs of care for high users.

E. Skilled Nursing Facility Services

Monitor spending for SNF services and the Secretary's progress in developing her report. Contine examination of growth in ancillary therapy services furnished during a SNF admission and the increase in exceptions payments.

F. Analysis of Variations in Post-Acute Care Services

Defer analysis of varitions in cost and utilization across facility types and policy options for slowing spending growth.

III. MEDICARE MANAGED CARE

A. Develop a Joint Report with PPRC Regarding Medicare Managed Care

B. Continue Analysis of the Risk Contracting Program and Proposed Alternatives

Monitor Congressional proposals to modify the managed care program. Continue analysis of HMO enrollment issues, the ACR and AAPCC, regional variations in payment, and other policies. Analyze service use and hospital cost per case, controlling for age, sex, and geographic location of Medicare beneficiaries in HMOs and fee for service plans, if data is available. Examine risk adjustment methods in private and public managed care plans and proposals for improvements.

C. Monitor Medicare's Managed Care Programs

Monitor Medicare's policies and enrollment and disenrollment in the various managed care options other than risk contracting.

IV. MEDICAID AND PRIVATE SECTOR MANAGED CARE

A. Medicaid Managed Care

Monitor the Medicaid 1115 and 1915 waivers and HMO enrollment issues. Defer analysis of regional variations in payment and service use.

B. Private Sector Managed Care

Monitor private sector HMO enrollment. Defer analysis of regional variations in spending and payments to providers.

V. MEDICARE AND THE AMERICAN HEALTH CARE SYSTEM

A. Annual June Report

Prepare the Report. Additional time to complete analyses for inclusion in the report is included in other components of the analytic agenda.

B. Other Analyses to include in the June Report

Defer decisions until fall. Candidates include analysis of national health care spending by sector and by payer and changes in service capacity and use. The growth and characteristics of the uninsured population. Changes in insurance premiums and cost sharing. Medicare beneficiaries' utilization of services, program spending, and out of pocket spending.

C. Medicare State-Level Per Capita Spending

Proceed with multivariate analysis of state-level per capita spending

D. Medicare Vouchers and Medical Savings Plans

Monitor proposals and research related to the development of vouchers and medical savings plans for the Medicare program. The priority for additional analyses of these proposals using the Medicare state-level per capita spending data base and other sources will be determined in the fall.

E. Hospital Performance

Develop scenarios describing the possible impact of options for slowing Medicare spending growth. Continue the annual descriptive analysis of hospital financial performance, the payers analysis, and cost shifting.

F. Quality of Care and Access

Monitor Medicare, Medicaid, and private sector quality of care activities. Defer additional analysis of these activities as well as further analysis of the current beneficiary survey.

G. Medicaid Policies

Monitor Medicaid DSH policies and spending. Defer additional analysis of Medicaid payments to hospitals.

H. State-Level Activities

Continue to monitor state-level activities related to health care financing and delivery.

I. Other Aspects of the Health Care System

Continue to examine the changing structure of the health care system, including hospital consolidation and network affiliation, regionalization, service capacity, staffing.

Continue to monitor the effects of these changes on essential community providers.

Continue to monitor activities related to competition and antitrust.

Complete the multivariate analysis of the hospital and physician relations project, if additional resources are available.

UNITED STATES RAILROAD RETIREMENT BOARD

STATEMENT OF GLEN L. BOWER, CHAIRMAN

The Railroad Retirement Board's (RRB) fiscal year 1996 budget request for administrative expenses as reflected in the President's budget is for $93.359.000 and 1.393 full-time equivalent (FTE) employees, excluding the Office of Inspector General (OIG). Our fiscal year 1996 total administrative expense budget request is approximately $800.000 more than the $92.552.000 appropriated for fiscal year 1995, and includes $200.000 for a statutory reserve available only to the extent necessary to process workloads not anticipated in the budget estimates.

A breakdown of our fiscal year 1996 budget request by account follows.

Account	Estimate FTE's	 Amount
Limitation on Administration	1.379	$92.700.000
Special Management Improvement Fund	14	659.000
Total	1.393	$93.359.000

In fiscal year 1996, we also expect to be reimbursed an additional $3.7 million by the Health Care Financing Administration (HCFA) for Medicare activities which will fund an additional 44 FTE's. Total FTE's funded would therefore be 1.437. This is 7 FTE's less than the President's ceiling for fiscal year 1996.

The 1.437 FTE's proposed for fiscal year 1996 represent a reduction of 53 from the level we currently expect to fund in fiscal year 1995. Buyouts have served a key role in reducing employment levels. As of May 31, 1995, 72 employees have accepted buyouts (31 in fiscal year 1994 and 41 in fiscal year 1995 so far). An additional 37 employees have signed agreements to take advantage of this program in fiscal years 1995, 1996, or 1997. In addition to the above, 5 employees in the OIG have accepted or signed agreements for buyouts.

As planned, resources for the highly successful Special Management Improvement Program (SMIP) continue to decline in fiscal year 1996 -- the agreement's final year. Under the proposed budget, we intend to complete work as planned on the high priority 5-year program of special projects to implement management improvements in six functional areas: benefit claims processing, debt collection, benefit fraud control, information systems, benefit taxation accounting, and trust fund integrity.

The President's budget proposes that a single administrative account, the Limitation on Administration, be established to provide funding for the administration of both the railroad retirement/survivor and unemployment/sickness insurance benefit programs. The single account would replace the former Limitation on Administration Account which funds the administration of the retirement/survivor benefit program, and the Limitation on Railroad Unemployment Insurance Administration Fund which funds the administration of the unemployment/sickness insurance benefit program. On April 3, 1995, the RRB released a legislative package to the Congress, entitled "Railroad Retirement and Railroad Unemployment Insurance Amendments Act of 1995," which included this proposal.

In addition to the administrative expenses, our budget request included $240.000.000 (plus a 2-percent contingency of $4.800.000) for vested dual benefits payments to certain people who qualified for both social security and railroad retirement benefits before 1975. The contingency would become available in the event payments exceed our estimate. The amount requested for vested dual benefits payments in fiscal year 1996 was $21.000.000

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less than the 1995 enacted level due to the continued decline in the number of persons eligible for these benefits. We recently revised our fiscal year 1996 funding requirement for vested dual benefits to $239.000.000 (plus a 2-percent contingency of $4.780.000).

Finally, our request includes $300.000 to cover interest related to uncashed railroad retirement checks. These funds are being requested for 2 years and will be available through September 30. 1997.

The OIG has submitted a separate justification and request for $6.7 million and 85 FTE's for audit and investigative activities.

RECENT MAJOR ACHIEVEMENTS

Question. Please identify your recent major achievements.

Answer. We have initiated a number of management improvements which are focused on major areas of agency operations. The achievements discussed below are a beginning in that we recognize that deficit reduction initiatives will continue to limit budgets in the future and streamlining agency operations to increase efficiency and productivity will be necessary in order to do more with less. Following are major recent efforts at improving program, financial, and support activities of the agency.

AGENCY REORGANIZATION

We have taken steps in restructuring the agency by adopting a plan to enhance the headquarters organization and to streamline the field office structure. The restructuring, effective January 3. 1995, established an Office of Programs to oversee direct service to our beneficiaries and claims processing operations, created an Office of Administration to coordinate administrative support activities, and combined the agency's automation and information system functions under a new Chief Information Officer position. These changes will focus more attention on the activities that directly relate to providing benefits and place more responsibility in the hands of senior and middle management.

Our reorganization also calls for a reduction of regional offices from five offices to three. In addition, we have closed three field offices in the last 2 years, and are in the process of closing five more.

REENGINEERING

In January 1994, we formed a team to reengineer work processes to ensure we deliver customer service at the highest possible level. The early efforts of the team have been directed to certain support functions within the agency. The team is completing its reviews of personnel, budget, procurement, and financial functions resulting in recommendations and options for streamlining these areas. Also, a primary purpose in starting its efforts in these areas was for the team members to gain experience in applying reengineering concepts before tackling our major claims processing activities. The team is now shifting its attention to claims processing areas and has developed an approach to begin the reengineering of the claims processing methods.

SCHEDULING OF MEDICAL EXAMINATIONS

In May 1994, we centralized the scheduling of medical exams for disability determinations. Under this approach, agency staff electronically transmit exam requests to an outside contractor which secures a medical provider, schedules the exam, and contacts the claimant. Acceptance and payment-related documents are also sent electronically between the RRB and the contractor. Previously, each of our field offices handled these tasks. This has greatly streamlined this area of our operations and has resulted in improved services to our beneficiaries. The contract also sets prices for various procedures, thereby providing cost containment.

SPECIAL MANAGEMENT IMPROVEMENT PROGRAM

We are continuing to meet or exceed all of the objectives under the Special Management Improvement Program (SMIP). In April 1990, the RRB had an intense, comprehensive management review by a team of government management experts organized by OMB. The review stemmed from many OMB and Inspector General concerns with overall agency administration and resulted in an agreement to make needed improvements in six key areas: claims processing, debt management, fraud control, tax accounting, trust fund integrity and information systems. A written contract embodied the agreement, including specific performance goals and a proposal for $13.9 million in supplemental funding. In the past 4 years, the Administration and Congress have supported this added funding. The fiscal year 1996 request will bring this program to a successful conclusion. We expect to complete this effort by the end of fiscal year 1996 (on schedule) at a total cost of about $12.4 million, or $1.5 million less than originally planned. Following is a brief overview of achievements resulting from our work in each area.

Claims processing. When we began the SMIP in fiscal year 1992, we had a total workload of over 79,000 cases in targeted categories of backlogged retirement and survivor claims. By the end of April 1995, we had reduced the backlog to 4,392 in the three remaining targeted categories. We are currently ahead of schedule in this area, and we expect to eliminate the backlog completely by the end of September 1995.

Debt management. We have made major improvements in our debt collection operations, including expansion of the Internal Revenue Service's (IRS) tax refund offset program and our use of debt collection agencies. We collected more than $1.1 million through these efforts in fiscal year 1994 -- more than twice our goal. In addition, the tax refund offset program is one of the most cost-effective collection methods, and debts can be referred annually for up to 10 years.

Fraud control. We have made major advances in the area of fraud control. By the end of fiscal year 1994, we had established wage matching agreements with all 50 States, the District of Columbia and the Commonwealth of Puerto Rico, covering virtually 100 percent of railroad workers. Our original goal for 1994 was to have conducted matches with 38 States. By conducting matches with all States, we achieved our ultimate goal about 3 years ahead of schedule. In fiscal year 1994, we identified over $1.2 million in potential recoverables through these programs and referred over 1,000 cases to our Inspector General with potential recoverables of an additional $1.8 million.

Tax accounting. We have made major improvements to our tax processing systems and have eliminated a backlog of 49,000 unprocessed record corrections and cases requiring review of incorrect tax statements.

Trust fund integrity. We are ahead of schedule in reconciling employers' reports of compensation more than a year before the statute of limitations expires. We have also made an electronic tax payment system available to all employers.

Information systems. We implemented a new work measurement system for our field service based on an approach used by the Social Security Administration, and we are continuing to expand its use. In addition, with approval by the Office of Management and Budget (OMB), we acquired software to make our procedural manuals and administrative documents available to our staff on-line through personal computers and computer terminals.

AUDIT OF FINANCIAL STATEMENTS

Although the RRB is not covered by the Chief Financial Officers Act of 1990, we strive to comply with its provisions. In our opinion, audits of the RRB's financial statements are very important because they provide independent assurance that RRB management has fairly presented its financial position and results of operations, that it is in compliance with applicable laws and regulations, and that its internal control structure is adequate to ensure the integrity of the system.

The audit for fiscal year 1994 resulted in a disclaimer of opinion because (1) the auditors were unable to obtain sufficient audit evidence to determine what adjustments, if any, are required to properly account for and report benefit payments, (2) the auditors were able to obtain a confirmation from the Internal Revenue Service regarding potential liabilities related to asserted cases filed in the Federal courts but there was no mention of the status of unasserted claims, and (3) information was not yet available for the auditors to apply sufficient procedures to the Financial Interchange receivables, payables and revenue amounts related to fiscal year 1994. The auditors also noted the same internal control weaknesses which the RRB reported in its most recent Federal Managers' Financial Integrity Act report.

We are working to resolve the issues that led Arthur Andersen to disclaim an opinion on our financial statements.

DEBT MANAGEMENT

The RRB continues to increase its debt management capabilities. Since establishing an executive position reporting directly to the RRB Chief Financial Officer to coordinate all railroad retirement program debt collection activities, the agency has been taking a systematic approach to addressing its receivable problems. The RRB's initial effort was to improve current processing in troublesome areas to stop the loss of revenues and to prevent backlogs from growing larger. The first actions were taken in the area of debt prevention to reduce the numbers and amounts of overpayments being issued. One such effort resulted in reducing the number of erroneous payments issued after the death of beneficiaries. Next, our actions were directed at improving the processes used in debt recovery. This resulted in the development of automated processes to replace inefficient and ineffective manual systems. The most noteworthy of these involved the use of personal computers and local area networks to generate combination rate correction/overpayment notices and to automate reclamations and returned check processing. Once debt prevention was enhanced and our current processing was improved, we directed our attention to the large workloads.

Our methodology is working. In fiscal year 1994, we referred debts totaling $8.13 million to the IRS, collecting slightly more than $1 million. Collections showed a 4.7 percent increase in fiscal year 1994, even though debt preventative measures were implemented which reduced the receivable base. (Note: Debts established decreased by 21.8 percent.) The agency's retirement and survivor receivable balance has decreased from $92.3 million at the end of fiscal year 1993 to $76.9 million currently.

Staff have recently been added to eliminate a backlog of requests from debtors to waive the debts, a backlog which we expect to eliminate in fiscal year 1996. Also, we are continuing with a long range plan to improve our debt collection operations. Finally, we have proposed legislation to enhance the RRB's authority to collect debts by means of administrative offset against other Federal payments. This proposal was included in a legislative package released to the Congress on April 3, 1995, entitled "Railroad Retirement and Railroad Unemployment Insurance Amendments Act of 1995."

USE OF ELECTRONIC PAYMENT

The RRB has implemented Electronic Funds Transfer (EFT) as the presumed method of payment for all new railroad retirement beneficiaries and will implement EFT as the presumed method of payment for all new unemployment and sickness insurance beneficiaries on July 1, 1995. We began offering electronic direct deposit for the unemployment and sickness insurance benefits in March 1994.

Currently, about 91 percent of salaries, 57 percent of retirement benefits, and 7 to 8 percent of unemployment and sickness insurance benefits are paid by direct deposit.

The use of EFT is very cost effective. According to the Department of the Treasury (Treasury), it currently costs 40 cents to issue a check payment and 2.4 cents to issue an EFT payment. Because of these savings, we have been strongly encouraging our beneficiaries to enroll in EFT. We estimate an annual savings of $1.7 million for the retirement program and $116,000 for the unemployment and sickness insurance program if all beneficiaries had bank accounts and were required to receive their benefits by EFT.

RAILROAD EMPLOYER AUDITS

Under guidance from OMB and the Congress, the RRB formed an audit and compliance division within the agency's Bureau of Fiscal Operations in April 1993. This division was formed to conduct audits of railroad employers and to help ensure compliance with reporting and financial regulations. Since that time, the division has completed 36 compliance and 13 coverage audits. These audits have resulted in nearly $1.6 million in potential added unemployment insurance contributions and other receivables due from employers.

EARNINGS AND INVESTMENTS

The RRB has striven to become more proactive in managing its investments even though the law limits us to Federally issued or guaranteed obligations. We have looked for ways to expand our investment options and have recently concluded negotiations with Treasury to allow the purchase of zero-coupon bonds. We are holding continuing discussions with Treasury officials on the possible purchase of securities issued by other Federal agencies.

In fiscal year 1994, the holdings of our retirement funds earned an average yield of 6.71 percent. Earnings on the RRB accounts totaled $812 million. This does not include capital gains of $186.9 million on security sales authorized by the RRB's Investment Committee. Over the past 4 years, we have realized $543.9 million in book profits from such sales as compared to just $1.1 million for the previous 3-year period.

To further enhance our investment capabilities, a proposed legislative package submitted to the Congress on April 3, 1995, includes a provision to increase interest earnings consistent with the formula used for the social security trust funds.

AUTOMATION IMPROVEMENTS

Over the past 5 years, the RRB has developed and implemented several major new automated claims processing and support systems. These provide on-line, interactive calculation and payment functions for employee and spouse retirement claims, survivor claims and social security claims which are certified to the RRB for payment. In addition, we have automated debt recovery processing for current entitlement cases. And, most recently, we have developed a payment, rate and entitlement history system that forms the foundation for a single repository for all future railroad retirement adjudicative actions, thus enabling the RRB to reduce its reliance on paper folders, pursue the replacement of systems which are 25 years old and very maintenance intensive, and process inquiries and adjudicative actions more rapidly.

We believe that our automation efforts are resulting in more accurate and timely payment of retirement and survivor benefits. We have automated many of the previously time-consuming and error-prone steps involved in making post-entitlement adjustments to these cases, although we still have an unacceptable number of errors. Other benefits include a reduction in the amount of paper used to produce a payment, the ability to detect and correct errors or discrepancies at the source, and greater efficiency overall.

The RRB installed an image processing system in March 1993, to process sickness insurance applications and medical statements. The purpose was to improve document control, eliminate the maintenance of manual files, and improve processing controls. Results have been positive, indicating that "lost" document complaints and related delays have been eliminated, and that processing efficiencies and controls have improved.

In September 1994, a second, smaller free-standing image processing system was installed in the retirement methods and procedures section. This system is used to store and retrieve technical files.

We estimate that about 65 percent of our retirement systems, 84 percent of our unemployment and sickness insurance systems, and 85 percent of our administrative functions are automated.

CONSOLIDATION OF CHICAGO-AREA FACILITIES

In fiscal year 1994, the RRB completed the consolidation of three Chicago-area facilities into the headquarters building. These facilities consisted of a large warehouse, a satellite claims processing center, and the Chicago field office. We estimate that the resulting annual savings from these moves will amount to about $834,000 in rent and other cost savings.

PLANNED IMPROVEMENTS

Question. Please predict what you hope to accomplish in the near future.

Answer. In the next few years we expect to complete a number of projects to streamline operations and to improve the quality of our service to the public. Major initiatives now underway include the Special Management Improvement Program (SMIP), modernization of automated processing systems, improvements in debt management operations, reorganization of staffing and service delivery systems, and several special projects to improve the effectiveness of agency management.

SPECIAL MANAGEMENT IMPROVEMENT PROGRAM

In fiscal year 1996, we expect to complete all of our objectives under the SMIP.

MODERNIZATION OF AUTOMATED SYSTEMS

In recent years, we have been working toward modernizing our claims processing systems using an incremental approach which utilizes existing systems as the beginning point for further development. During this time, we have developed and implemented several major automated claims processing and support systems to provide on-line, interactive calculation and payment processing services for retirement and survivor claims and social security claims which are certified to the RRB for payment. In addition, we have developed an integrated database for current entitlement cases and automated debt recovery processing for current entitlement cases. Most recently, we implemented a new rate and entitlement history system which will provide a basis for further automation of post-entitlement processing functions.

We are also exploring the use of relatively new technologies to streamline operations and improve service. We are also increasing our use of electronic communications with railroads, financial institutions and others. We are currently revising our 5-year Strategic Information Resources Management Plan to reflect agency priorities for future automation projects.

DEBT MANAGEMENT

Changes to debt management processing are being developed and/or implemented. These include the following:

-- Implementation of a comprehensive system for referring and handling reclamation and restitution cases under a recent agreement with the OIG.

-- Timely release of notice of debts accrued by beneficiaries before death to executors/administrators of estates and personal representatives of decedents.

- -- Accrual of interest and penalty on delinquent debt.
- -- Tracking of new delinquent debt and placement into appropriate collection programs, and
- -- Utilization of a lockbox to receive all payments and responses to debt correspondence.

AGENCY REORGANIZATION

A task force made up of headquarters and field office employees has just completed a 2-month review of the agency's structure and has made its recommendations to the Board Members to, among other things, abolish bureaus in headquarters and offices in the field service, reduce the layers of management, promote greater accountability, enhance customer service through the use of technology, forge third-party partnerships, and allow for possible outsourcing of various projects and tasks.

MANAGEMENT IMPROVEMENTS

The RRB has several special project activities underway to help improve the productivity and effectiveness of our operations. These include the following:

Customer service/benchmarking. As required under Executive Order 12862, we surveyed our customers last year to determine their level of satisfaction with RRB service and to learn what kinds of services they prefer. We then developed a set of customer service standards, which we have posted in each of our field locations and made available to the public in pamphlet form. We also worked with a contractor to benchmark the RRB's performance against outstanding administrators of pension plans. We will use this information to guide future reengineering efforts.

Pilot project. The RRB's Bureau of Survivor Benefits has been designated a pilot project under the Government Performance and Results Act (GPRA). Through this project and others, we are preparing to comply with GPRA requirements for planning, budgeting and performance measurement.

QUESTION SUBMITTED BY THE SUBCOMMITTEE

Question. What would be the effect on the agency if there was 1) a freeze at the fiscal year 1995 appropriation level or 2) a reduction of 10 percent from the requested fiscal year 1996 level?

Answer. Limiting funding for the RRB in fiscal year 1996 to the fiscal year 1995 appropriation level would provide a total of $92,552,000 for administrative expenses (excluding $3,700,000 reimbursed by HCFA). Without realizing any other cost savings, we would need to reduce our FTE level to 1,422 (including 44 reimbursable HCFA FTE's). This is 15 less than the number of FTE's we had expected to fund with the $93.359.000 provided in the President's fiscal year 1996 budget. and 68 FTE's less than the number we currently expect to utilize during fiscal year 1995. Reducing the President's fiscal year 1996 budget recommendation by 10 percent would provide the RRB with $84.023.100 (excluding $3.700.000 reimbursed by HCFA) for administrative expenses. Without realizing any other cost savings. the RRB would need to reduce its FTE level in fiscal year 1996 to 1.285 at that funding level. This is 152 FTE's less than we had expected to fund with the $93.359.000 provided in the President's fiscal year 1996 budget. and 205 less than the number of FTE's we expect to utilize during fiscal year 1995. Both scenarios would result in additional reductions-in-force (RIF's). This would result in additional costs to the agency and would further lower the number of FTE's we could fund.

FTE reductions could be offset. to some extent. by realizing cost savings or reducing expenditures in other areas. Funding for training. overtime. travel. supplies. and equipment could be curtailed or eliminated. Unfortunately. reductions in expenditures for training and equipment would hamper our efforts to modernize and to acquire and utilize new technologies. Reductions in travel would likely result in a decline in service levels to our beneficiaries.

There can be no question that reducing our FTE level for fiscal year 1996 as compared with fiscal year 1995 by 68 FTE's to 1.422 FTE's (at the fiscal year 1995 appropriation level) or by 205 FTE's to 1.285 FTE's (at a level equivalent to 10 percent less than the proposed fiscal year 1996 level) in 1 year would represent a significant personnel reduction for the RRB. These reductions would be in addition to the reduction of approximately 208 FTE's (a 12 percent reduction) over the past 2 fiscal years.

Despite the large number of employees who were eligible for either early retirement or regular retirement. and due to the buyout program. the RRB was required to reduce its staff level over the past two fiscal years with RIF's of 19 staff. Future personnel reductions will almost certainly require a significant increase in the use of RIF's.

STATEMENT OF MARTIN J. DICKMAN, INSPECTOR GENERAL

Mr. Chairman and Members of the Subcommittee:

My name is Martin J. Dickman, Inspector General of the Railroad Retirement Board (RRB). I am here today to present our budget request for Fiscal Year (FY) 1996.

I would like to thank you, Mr. Chairman, and the members of the committee for your continued support of the Office of Inspector General (OIG).

We are requesting funding to permit us to continue our independent oversight of the RRB. The RRB is responsible for managing benefit programs which pay out approximately $7.9 billion in retirement, survivor and disability benefits annually to approximately 800,000 beneficiaries, and an additional $69 million in railroad unemployment and sickness insurance benefits. The RRB Trust Funds currently have a balance of $13.1 billion. The RRB also administers Medicare Part B, the physician services aspect of the Medicare program, for qualified railroad retirement beneficiaries. About 750,000 beneficiaries receive such benefits through the agency totaling more than $700 million each year.

In FY 1996, the Office of Inspector General will continue its commitment to provide RRB management with recommendations for streamlining the agency, improving day to day operations and enhancing service to the railroad community. At the same time, we will review our internal organization and operating procedures to improve our operations to better serve our customers.

I will now summarize our audit and investigative priorities for FY 1996.

OFFICE OF AUDIT

In FY 1996, the Office of Audit (OA) will focus its resources in the following priority areas:

- **Office of Management and Budget (OMB)/RRB Management Improvement Agreement.** We will continue to monitor and assess the RRB's progress, in the fifth and final year of the management improvement agreement, in making operational improvements in the railroad retirement system. We will ensure that the RRB correctly applies the resources provided to make necessary improvements.

- **Financial statement audits.** OA will continue to work with Arthur Andersen and Company, a Certified Public Accounting firm, in conducting audits of the RRB's financial statements. It is expected that these reviews will identify weaknesses and recommendations will be made to ensure the agency is in compliance with the Chief Financial Officers Act of 1990.

  Audits of the RRB's 1993 and 1994 financial statements, which have recently been completed, identified the following material weaknesses: (1) backlogged cases and the allowance for debts that the agency does not anticipate it can collect; (2) inaccurate benefit payments; (3) an overall control environment that fosters a stand-alone attitude for each bureau; and (4) lack of an annual reconciliation between retirement tax deposits paid by railroad employers and the amounts deposited in the RRB Trust Fund Accounts. We will continue to work with RRB managers to ensure that these weaknesses are adequately addressed and corrective actions are completed. To date, final disposition has been given to approximately one-half the management points included in the audits.

In FY 1996, OA and Arthur Andersen will perform an audit of the RRB's 1995 financial statements. The OIG plans to fully fund the contract within its $6.7 million budget proposed by the Administration.

- **Integrity of the trust funds.** OA will review the RRB's oversight procedures for ensuring the accurate collection and processing of railroad payroll taxes by the Department of Treasury and the Internal Revenue Service (IRS). The recently completed financial statement audits identified the lack of access to critical IRS information as a material weakness.

  The OIG has recently written to the IRS Commissioner concerning two major issues: (1) the RRB's lack of access to sufficient information from the IRS and the Treasury to verify the accuracy of railroad retirement tax deposits and refunds to the railroad retirement trust funds; and (2) the noncompliance with the supplemental tax by railroad employers. We will continue to pursue the cooperation and assistance of IRS officials in addressing this major area of concern.

  OA will continue to review the RRB's compliance group which conducts external reviews involving employer and employee coverage determinations, and employer compliance with the provisions of the Railroad Retirement and Railroad Unemployment Insurance Acts.

- **Benefit payment accuracy.** We will continue to conduct audits of benefit calculations in the RRB's retirement, survivor, unemployment and sickness insurance programs. We will seek to improve operating procedures and recommend automation initiatives to eliminate processing errors and improve the accuracy of benefit payments. We will work with program managers to find better and more efficient ways to deliver prompt payments.

- **Debt collection activities.** The financial statement audits also cited this area because of the RRB's inability to properly analyze the aging and collectibility of receivable amounts. OA will review RRB corrective actions in this important operational area. Agency accounts receivable currently exceed $94 million.

OA will monitor this area to ensure the RRB properly identifies, establishes, and collects receivables. We will also recommend ways that the agency can make improvements in collecting outstanding debts.

- **Medicare Part B Program.** The Office of Audit will conduct reviews to determine the accuracy of the $700 million in Medicare Part B claims processed by the RRB's Medicare carrier. OA will also increase its participation in Medicare investigations and improve coordination in program reviews with the OIG's Office of Investigations special agents to identify fraud, waste and abuse. Such cooperative efforts have proven to be very effective. OA will also continue to work with the RRB's Bureau of Disability and Medicare Operations to address program weaknesses.

- **Internal and management controls.** We will continue to assess the adequacy of agency controls for program operations and financial management.

  The RRB's organizational structure has been cited as a material weakness. We recently provided the Board Members will proposals to streamline operations and create a more flexible structure. In FY 1996, we will continue to offer recommendations to improve the overall control environment and the way the agency conducts business.

- **Agency information systems.** OA will continue to review existing and new on-line database applications to determine if the agency's systems effectively manage the agency's data and contain necessary internal controls. OA will evaluate new software applications being developed for personal computers to ensure sufficient controls for data integrity are in place.

OFFICE OF INVESTIGATIONS

The other component of the OIG, the Office of Investigations (OI), will continue to assign a high priority to health care matters involving fraud in the RRB's Medicare and disability programs. Our joint efforts with the RRB's Bureau of Disability and Medicare Operations, MetraHealth (formerly The Travelers Insurance Company), and health care task forces established across the country at various U.S.

Attorneys' Offices have proven extremely successful. Investigations will target medical providers who engage in illegal activities to fraudulently bill Medicare for services not rendered.

In order to maximize use of its available resources in Medicare cases as well as other program fraud investigations, OI will also increase joint investigative activities with other Inspectors General, particularly at the Department of Health and Human Services, the Federal Bureau of Investigation, the U.S. Secret Service, and the Postal Inspection Service. OI will expand its participation in joint activities with OIG audit personnel to ensure the maximum use of resources.

Many of OI's cases in this area, as well as in unemployment and sickness matters, result from computer wage matching programs with state governments. OI has recently initiated a comprehensive review of its current caseload to ensure only cases warranting a full investigation are opened. In FY 1996, OI will develop new methods to ensure its resources are directed to cases with the highest dollar impact.

OI will also continue its investigations of fraud in RRB benefit programs which typically involve the theft and fraudulent cashing of U.S. Treasury checks, or the theft of benefits that are directly deposited into bank accounts. OI will expand its use of the Treasury Recipient Integrity Program (TRIP) for annuitant verification to ensure payments are being made to the proper persons.

We will actively pursue enforcement actions under the Program Fraud Civil Remedies Act. In FY 1995, the Department of Justice has authorized seven prosecutions, five cases have been referred to the RRB's Bureau of Law for issuance of demands for repayment, and one case is under review by DOJ to determine if prosecution is warranted. Since its inception, this Act has resulted in 32 cases which have been settled by payment in full or by installment. With the strong support provided by the RRB and U.S. Department of Justice, OI will continue to use this statute as an effective weapon against fraud.

We have recently initiated a special review of reporting by certain railroad employers. This project, conducted jointly by OIG audit and investigative staff, is focusing on railroad employers who appear to be submitting fraudulent compensation reports indicating they have no employees. We will pursue these cases in FY 1996.

SUMMARY

The Office of Inspector General will promote greater cooperation and marshalling of resources between its Offices of Audit and Investigations. We will continue to review our operations to identify ways to increase productivity and manage resources more effectively. We will reduce supervisory oversight and permit employees to assume more responsibility and accountability.

In FY 1996, we will also continue to encourage input from agency managers concerning OIG audit projects, studies and management reviews. We will solicit suggestions as projects are completed that will help us to improve our service.

The Office of Inspector General will continue to work with RRB management to streamline the agency to allow the delivery of the best service at the lowest cost. Through the elimination of the current bureaucracy, the RRB can become more efficient and more effective. The OIG will offer recommendations to assist the agency in meeting this goal.

With the continued support of Congress and the Administration, the OIG will fulfill its mandate and continue its independent oversight of the RRB.

QUESTIONS SUBMITTED BY THE SUBCOMMITTEE

Mr. Specter: Please identify your recent major achievements.

Mr. Dickman: Our recent major accomplishments include the following:

(1) Financial Statement Audits - To meet the requirements of the Chief Financial Officers Act, the Office of Inspector General (OIG), working with Arthur Andersen and Company, initiated audits of the agency's financial statements. Recently completed audits of the agency's 1993 and 1994 financial statements have had a significant impact on agency operations. The reports identified over 80 internal control issues for which recommendations were made to correct process or control weaknesses. The audits also cited the following material weaknesses: (1) backlogged cases and the allowance for debts that the agency does not anticipate it can collect; (2) inaccurate benefit payments; (3) an overall control environment that fosters a stand-alone attitude for each bureau; and (4) lack of an annual reconciliation between retirement tax deposits paid by railroad employers and the amounts deposited in the RRB Trust Fund Accounts.

(2) Office of Management and Budget(OMB)/RRB Management Improvement Agreement - The Office of Inspector General (OIG) has continued to monitor the agency's progress in achieving performance improvements detailed in a January 1991 Agreement between the RRB and the OMB. The OIG issued semiannual reports to OMB on agency activities in six areas that include claims processing, debt collection, fraud control, information systems, tax accounting and trust fund integrity.

(3) Reinvention Proposals -- In January 1995, the Office of Inspector General issued two major reinvention proposals to the Board Members that related directly to the Administration's goals

contained in the NPR Report. The proposals recommended that the agency implement a revised organizational structure that decreases the number of bureaus from 22 to 5, and radically reduces the number of field offices from 86 to 10. Implementing these proposals would reduce total staffing by 422 full-time equivalent (FTE) positions and realize an annual savings of $21.6 million.

Mr. Specter: Please predict what you hope to accomplish in the near future.

Mr. Dickman: This office will continue to focus its resources in major areas in which improvements can be made in the management of the agency. In addition to our management studies to improve the agency, we will participate on streamlining, re-engineering and benchmarking projects, provide assistance regarding internal controls, and work with agency management to fully implement performance measures as required by the Government Performance and Results Act.

The OIG will continue to monitor the RRB's performance during the final year of the OMB/RRB Agreement, perform the audit of the agency's 1995 financial statements, and increase our efforts in the investigation of health care related matters. We are currently involved in several significant Medicare investigations which are being performed through joint health care task forces established across the country at various U.S. Attorneys' offices. We plan to expand the investigation of Medicare fraud, and continue to identify and investigate fraud and waste throughout RRB benefit programs.

Mr. Specter: What would be the effect of a reduction in your agency's budget with a freeze at the FY 1995 level or a 10% reduction at the FY 1996 level?

Mr. Dickman: If the approved funding level for FY 1996 is unchanged from the FY 1995 level, the Office of Inspector General could maintain its current level of operations. The office has been able to reduce its staffing level below the targeted level for FY 1996. In addition, the requested budget for FY 1996 is only $18,000 over current year funding.

A reduction of 10% in the FY 1996 budget request would produce a funding decrease of $670,000. Salary costs in FY 1996 will significantly increase as the result of an additional 25% in premium pay for all law enforcement personnel. This office would be unable to absorb these increases and would be required to eliminate five staff positions. This reduction would, of course, have a negative impact on OIG operations; audit resources would be directed to those areas with the highest impact and investigative efforts would be focused on the most significant fraud schemes. Planned inspection reviews and a reduction in the backlog of investigative cases would be curtailed.

UNITED STATES INSTITUTE OF PEACE

STATEMENT OF RICHARD H. SOLOMON, PRESIDENT

Mr. Chairman, members of the committee:

On behalf of the Board of Directors of the U.S. Institute of Peace, let me express appreciation for this opportunity to present the Institute's fiscal year 1996 budget request of $11.5 million, and to answer your questions about our work.

This year marks the start of the Institute's second decade, as well as the first term for many members of the new Congress. This is an appropriate occasion, for those unfamiliar with the Institute, to review our work in support of the nation's foreign affairs efforts, as well as to take stock and outline new directions.

By way of introduction, let me comment on the current status of the Institute's appropriation. My statement to you is especially important at this time because the House of Representatives voted on August 3 to reduce our appropriations for fiscal year 1996 by nearly 45%--from $11.5 million to $6.5 million. A cut of this magnitude would fundamentally alter the Institute's capacity to carry out its Congressionally mandated education, training, policy analysis and international conflict resolution work. It would severely diminish our ability to support U.S. policy makers in addressing new situations of international conflict and our capacity to offer training for foreign affairs practitioners in conflict resolution skills. We therefore urge the Committee to restore the level of funding to the $11.5 million requested.

In my testimony, I want to stress two points:

- **Our world today is burdened with regional conflicts, ethno-religious violence and the threat of proliferation of weapons of mass destruction, creating an air of chaos and uncertainty.** Policies and institutions of the Cold War era are proving unsuited to dealing with these challenges. While this may appear to be a less threatening time than the years of U.S.-Soviet confrontation, we cannot ignore today's international challenges. Our economy is ever more deeply integrated into the global economic system, and modern forms of transportation and communication bring developments on distant shores daily into our living rooms.

The American people, indeed people in most other parts of the world, still look to Washington for international leadership. U.S. leadership in world affairs is necessary if we are to pursue our own interests. It is in this context that **the work of the U.S. Institute of Peace has enhanced relevance. We are helping the country to think through the international challenges of our time through the Institute's research and education efforts, clarifying policy alternatives for Congress and the Administration, and constructing approaches to dealing with international conflict without going to war.**

- **We are keenly aware that this is a time of budgetary stringency,** a time of efforts to "reinvent government." I believe that **the Institute, over its first decade, has become a small gem of creative and efficient use of public funds in support of its Congressionally mandated charter.** With a modest annual appropriation we are strengthening our national capabilities to find solutions to international conflicts that threaten our interests. Our work is done through innovative training and educational programs and creative approaches to policy analysis that are communicated directly to Congress, the Administration and diverse audiences in the private sector. Today the Institute is recognized internationally as a center of research and training on conflict management; and upon occasion we are called upon to help facilitate the resolution of international conflicts important to U.S. interests.

In short, the Institute of Peace is the only national institution solely dedicated to research, policy development, public education and professional training about the peaceful resolution of international conflicts.

The Organization and Work of the Institute of Peace

A decade ago, Congress -- with strong bipartisan support -- created the Institute to strengthen our national capabilities for resolving international conflicts without resort to violence. At that time the United States and the Soviet Union were locked in the seemingly unrelenting Cold War confrontation. The nation's military strength was imperative to our security, yet Congress wanted to complement our military capabilities with a national, non-partisan institution committed to research and training on political approaches to international conflict management and resolution.

Accordingly, Congress designed the Institute as an independent, federally funded research, education and training entity dedicated to peacemaking through diplomatic and political means. The Institute's federal standing and its independent character were to be protected by a bipartisan Board of Directors nominated by the President and confirmed by the Senate, and with funding provided, not by private or foreign sources, but by an annual Congressional appropriation. The effectiveness of this structure, I believe, has been demonstrated during the Institute's first decade of work.

Our world today is chaotic and confusing. The end of the Cold War has not been followed by an era of peace and reconciliation. Rather, we have seen the outbreak of regional conflicts, dozens of smaller armed confrontations fueled by ethnic and religious hatreds, and episodes of human tragedy -- from Kuwait to Korea, from Bosnia to Burundi. These conflicts endanger our security and our national interests in varied ways, and they challenge our values and our sense of shared humanity.

As a nation we are searching for new approaches to deal with the post-Cold War world. Our senior officials, diplomats and scholars are reevaluating the old international currency of military alliances, multilateral organizations, regional balances-of-power, economic aid and disaster assistance. Creating new policies and institutions appropriate to coping with these international challenges will be a protracted process, yet we must prepare the next generation with concepts and tools to manage the world of the 21st Century.

It is in this context that the U.S. Institute of Peace gains its relevance and makes its contributions as a national institution. By virtue of our federal, non-partisan status we are able to bring together the best minds and talent from government, the "think tank" world, universities, and the private sector to explore policy alternatives. The Institute supports policy makers by enlarging the range of options between doing nothing, relying on poorly funded and improperly organized international institutions, undertaking large aid programs, or pulling the trigger of risky U.S. military interventions. In this way, the Institute helps to save the lives of our military and taxpayers' dollars.

The Institute's effectiveness reflects the fact that we are small and unencumbered by either a constraining bureaucratic structure or rigid programmatic responsibilities. We can act quickly to anticipate or confront emerging crises -- as we are currently doing with a working group on the North Korean nuclear challenge. Yet we are also able to convene large public forums on broad strategic issues. An example was our tenth anniversary conference, held last December, on the topic of "Managing Chaos: Coping with International Conflict in the 21st Century." The convocation, which attracted over 1,200 participants, explored the changing character of international conflict and assessed ways of enhancing the role of private-sector organizations in providing humanitarian assistance abroad -- an important new aspect of U.S. foreign policy as our AID resources shrink.

The Institute's current work concentrates on two major issue areas:

- **Ongoing and potential international conflicts** -- analysis of conflicts and assessment of new approaches to their management, (e.g., our work on questions of international intervention, preventive diplomacy, and human rights as a core element of U.S. foreign policy), and facilitating dialogue and mediation among groups in conflict where appropriate; and

- **Education and training programs** -- for high school and college teachers via summer training institutes, specialized training seminars for professionals in conflict resolution and negotiating skills, and programs to inform and educate the public more broadly in matters of international conflict resolution.

In its first decade, the Institute has thus become a center of education, training, research and facilitation concentrated on policies and practical solutions to international conflicts. Some 50% of our annual budget now supports research grants and fellowships on projects related to international conflict resolution, training programs for professionals in conflict management and negotiating skills, and scholarships for students from high school through graduate school. With the contraction of foundation and federal funding in these areas, the Institute's contributions acquire even greater significance.

The Institute's Impact on International Conflict Resolution

The impact of the Institute's diverse programs in strengthening our national capacity to manage and resolve specific conflicts is becoming more evident as we enter our second decade.

Assessment of Conflicts: One dramatic example of our research activities leading to practical results is Ambassador Robert Oakley's leap from leading the Institute's assessment efforts on Somalia on one day to serving as the government's special envoy to mediate a violent conflict in Somalia the next. In summer 1992, Ambassador Oakley pulled together an Institute study group to investigate the sources of conflict in Somalia with the intention of addressing possible approaches to a peaceful resolution among the parties. Through the fall, the study group initiative became a facilitation process encouraging inter-factional dialogue among leading non-official Somali figures. In December 1992. Ambassador Oakley was named the President's Special Envoy to Somalia. When appointed by former President Bush to lead Operation Restore Hope in December 1992, Oakley's earlier work laid the political groundwork for the successful, cooperative UNITAF phase of U.S. intervention. The Institute has subsequently sponsored several assessments of the Somali intervention as a case study in humanitarian, political and military intervention, drawing lessons from the accomplishments and failings of the U.S.-UN effort.

Facilitation of Policy Formation: The Institute's bipartisan working group on the North Korean nuclear challenge issued two well-received special reports outlining a strategy and policy options for dealing with this critical nuclear problem. The results of this working group were widely circulated on Capitol Hill and in the Administration. Several members of the North Korea working group were invited to a White House strategy session with the President and other key cabinet members last June as the crisis mounted, and the group today maintains a dialogue with senior administration officials as the situation continues to unfold.

Facilitation of Dialogue: In October 1993, the Institute, in cosponsorship with the House Subcommittee on Africa, under the leadership of Congressman Harry Johnston, facilitated dialogue between leaders of the two conflicting factions in southern Sudan, as well as a group of Sudanese intellectuals, activists and policy analysts. Discussions between leaders of the two factions resulted in a cease fire agreement between the parties. Subsequent work on developing negotiating points for regional mediators directly involved in trying to settle the conflict contributed to the ongoing international mediation of the Sudan civil war. These conflicting groups would only have come together under the auspices of an independent entity with some official status.

One aspect of the changing character of international relations around the world is that semi-official individuals or groups are playing an ever-more active role in preparing the ground for official negotiating efforts -- what is sometimes called "track two" (unofficial, but informed) dialoguing. The Norwegian Academy of Social Sciences played such a role in facilitating Israeli-Palestinian negotiators; and in our own case, a former U.S. president and former secretaries of state, as well as serving members of Congress, have played such roles in recent crises involving South Africa, North Korea, Bosnia, and Haiti. The Institute has been approached about facilitating such dialogues in the cases of Angola, South Africa, Korea, the Sudan, Somalia, and Syria/Israel. In its unique position as an independent, federal institution, the Institute offers an appropriate context and provides the proper skills to act as a disciplined "track two" facilitator of international conflict resolution.

In 1993-94, the Institute organized two "track two" dialogues with Kashmiri civic leaders as well as Indian and Pakistani former officials and military leaders with the purpose of averting a potential nuclear confrontation between India and Pakistan. We continue to examine ways to facilitate resolution of this conflict, in close coordination with the State Department.

Fostering New Diplomatic Measures: Our contributions in fostering new measures of "preventive diplomacy" and training foreign affairs professionals to implement such an approach is also having a tangible impact. This past year, our pioneering work in developing systems of early warning of looming international crises and mobilizing resources for preventive diplomacy has helped shaped new State Department crisis-management procedures.

Our project on "The Professionalization of Peacekeeping," which assessed the manifold problems of UN peacekeeping, is now required reading in many U.S. military staff colleges. And a grant to the Institute for Defense Policy in South Africa produced policy recommendations which were adopted by the Mandela government for institutionalizing new civil-military relations.

Impact on Education and Training

The Institute today has education programs at each of the major teaching levels in the U.S., starting with secondary education and including undergraduate, community college, graduate, post graduate, and professional education and training. These programs include summer teacher training institutes and a high school peace essay contest that each year attracts upwards of ten thousand students from all parts of the union.

Our program in international conflict resolution skills training (ICREST) has generated growing interest among foreign affairs professionals in many countries. Although there have been significant conceptual developments in the field of conflict resolution, there are few credible training programs available to governments and multilateral institutions in mediation, conflict resolution and negotiating skills. The Institute's training programs in this area are filling an international need at a time when more problems are being addressed through negotiations. For instance, the Inter-American Defense College requested last September that the Institute design and deliver a two-day training program for senior officers from fourteen countries. Institute personnel have been asked to serve as trainers or lecturers in courses on peacekeeping operations or mediation techniques at the Foreign Service Institute. Through fiscal year 1996, the Institute plans to offer training opportunities to practitioners in the United States and to officials in other areas of the world that are critical to U.S. interests such as the Balkans, Eastern Europe, and the former Soviet Union.

These training efforts are being reinforced by the Institute's project on cross-cultural negotiating behavior -- designed to build a comparative database and training materials on various countries' negotiating styles. This important project is using the Institute's research capability to develop profiles of the negotiating styles of different nations and then translate the results of such studies into training programs that will make U.S. negotiators more effective in their dealings with foreign counterparts.

Conclusion

Mr. Chairman, the Institute in its first decade has become a national, and international resource for the Administration and Congress. It bridges the gaps between the government, analytical institutions and other foreign affairs practitioners through its network of officials, scholars, teachers and media representatives. Its education programs are enlarging the public's focus on issues of international conflict resolution. Our mix of complementary activities -- research grants, fellowships, education and training programs, policy workshops and conferences, library resources and special programs -- place us at the forefront of both analysis and action on matters of international conflict resolution.

Our focused efforts and status as an independent, non-partisan national organization insulated from political pressures or private agendas allows the Institute to play a unique bridging and networking role in the service of a more effective foreign policy We are accumulating an invaluable body of experience in utilizing our critical convening power to assess international problems, explore new paths to conflict resolution, build consensus on constructive policy approaches, and train a new generation of professional practitioners.

In today's uncertain period of transition from the Cold War to a more pluralistic world, new rules for international relations are being written. The Institute is promoting this process by helping our nation think through the requirements, possibilities and opportunities for an effective foreign policy suited to a world in which military approaches to international problems are seen as less desirable, and more costly, than negotiated solutions.

Mr. Chairman, we are keenly aware of the fiscal constraints facing Congress as it begins this year's cycle of the budget process. I hope that as you scrutinize the Institute's activities you will agree that the Institute of Peace is one federal program that not only uses the taxpayer's money in an effective, efficient manner, but that its work is an example of a creative contribution to enhancing America's security, its international standing, and its pursuit of humanitarian values. If the Institute's work helps prevent U.S. involvement in just one military conflict it will have saved billions of dollars -- not to mention countless lives.

I believe Congress has good cause to look with satisfaction on its decision a decade ago to establish the United States Institute of Peace. I trust the new Congress will, with similar foresight, continue to support our efforts to enhance processes of international conflict resolution and peacemaking in an unsettled and still-violent world. We urge you to approve the full amount we have requested for our fiscal year 1996 appropriation.

Thank you, and I welcome your questions.

QUESTIONS SUBMITTED BY THE SUBCOMMITTEE

RECENT ACHIEVEMENTS AND FUTURE ACCOMPLISHMENTS

Senator Specter: Please identify your recent major achievements and please predict what you hope to accomplish in the near future.

Dr. Solomon: To understand the Institute's achievements, let me first summarize the Institute's key functions:

•Mobilizing top national and international talent from research organizations, academia, and government to **support policy makers in the Administration and Congress** by providing independent and non-partisan assessments of how to deal with international conflicts by means other than military intervention and use of force.

•**Training foreign affairs professionals** from the U.S. and abroad in mediation, negotiation and other conflict management and resolution skills.

•**Facilitating resolution of international disputes** by organizing "track two" (informed but unofficial) dialogues among proximate parties to international conflicts to lay the groundwork for official ("track one") negotiations between principal parties to the conflict.

•**Teacher training** (from high school through graduate education) to strengthen curricula and instruction about the changing character of international conflict and non-violent approaches to managing international disputes.

- **Student enrichment and public information about international conflicts and peacemaking efforts** through research grants, scholarships, publications, electronic outreach, and conferences.

The Institute's five integrated programs—grant-making, fellowships, policy research and study activities, education and training programs, and library and public information activities—mutually reinforce a comprehensive competence in the focused area of international conflict resolution. These activities are designed to serve the Institute's primary customers, its end users: (1) U.S. policy makers, (2) international affairs professionals and practitioners, (3) educators and students, and (4) other U.S. citizens.

Achievements and Accomplishments in Key Functional Areas:

- **Supporting policy makers in the Administration and Congress:**

—Congressional funding establishes the Institute's independence from privately or foreign directed and funded agendas and enables the Institute to maintain a credibility and authority on issues that non-governmental "think tanks" and advocacy organizations do not always have.

—Because of its federal status, the Institute attracts and mobilizes top academic and think tank talent in support of government policy makers. Its convening power "bridges the gap" between government and the private sector, resulting in comprehensive policy assessments.

—The Institute's principal customer in this regard is the U.S. policy-making community, whose structured responsibilities for foreign policy implementation leave little time to look beyond today's crises to address tomorrow's trouble spots before they develop into crises that may need military intervention or other types of action.

—Because the Institute is not charged with day-to-day operational responsibilities in foreign policy or with specific policy agendas, it maintains the flexibility to consider a wide range of policy instruments and programs and to innovate new ones with a minimum of bureaucracy.

Examples: Requests from the Administration, such as from the National Security Council for off-site discussions about "political Islam" and from the State Department for collaboration on issues of "preventive diplomacy" and "self-determination," demonstrate the Institute's critical value to operational federal agencies.

Institute work on the Middle East peace process, the Korean nuclear challenge, and conflicts in Burma, Sudan, and Somalia demonstrates its ability to contribute to preventive diplomacy and early warning on pre-crisis foreign policy challenges.

In addition to continuing work on these topics, the Institute is planning similar projects addressing the renewed role of ultranationalism in many European states and prospects for conflict among the many claimants to territory in the South China Sea.

•**Training international affairs professionals** in mediation, negotiation and other conflict management and resolution skills:

—The need for non-military approaches to conflict management and resolution is growing as "low level" international conflicts proliferate in the post-Cold War world, and as U.S. military and foreign affairs budgets contract. There is an increasing national and international demand for conflict resolution skills training for foreign affairs professionals. The U.S. military is taking on new roles in "peace operations" that require new types of training. The Foreign Service Institute offers little of such training; nor can FSI train foreign nationals.

In addition, FSI does not have the network and access to the academic community to design and deliver analytical seminars focused on complex problem-solving and conflict resolution techniques, which is the Institute's core capability.

—Private sector for-profit training programs exist, but they often lack independence from their funding sources and the ability to incorporate the policy component required by foreign policy practitioners, as well as the federal status to marshal effective training teams.

Examples: The Institute is taking a leading role in defining and advancing the field of conflict resolution skills training. Recent activities of the Institute's International Conflict Resolution Skills Training (ICREST) program have included training of government personnel from State, AID, USIA and the military, as well as international personnel from the UN, OAS, OAU, Thailand, Cambodia, and the Balkans. The Institute is collaborating with the Peacekeeping Institute of the Army War College to help the U.S. Army evaluate its changing role in conflicts that require a combination of humanitarian and other non-combat functions.

The Institute will continue to provide high quality, policy-relevant training programs of four to seven days duration for foreign affairs professionals in the public and non-governmental organization (NGO) sectors from the United States and abroad. These will focus on a combination of (1) regional issues such as conflicts in the Balkans and southeastern Europe, east and north Africa, and southeast Asia; and (2) over-arching topics like peace operations, complex humanitarian emergencies, and preventive diplomacy. In addition, the Institute will further refine its overall training design and continue to develop a variety of curricular materials to be made available as part of its broader educational mandate.

An important component of ICREST is a project on comparative cross-cultural negotiating behavior. The project will (a) create descriptive models of cross-cultural negotiating practice, (b) build a comparative database of national negotiating behaviors, and (c) develop a computer-based program for negotiation training and other purposes. The database is intended to be accessible for use by diplomats and other government officials, NGOs, members of the business community, and scholars.

The Institute has awarded more than 40 grants to individuals and organizations involved in conflict resolution training work to develop programs and new techniques. Their results, in turn, contribute to the Institute's training programs for foreign affairs professionals. The Institute expects to make similar grants in each fiscal year in the future.

•**Facilitating resolution of international disputes** through "track two" dialogues among parties to conflicts:

—The character of the international system is changing. Semi-official or unofficial individuals and groups are playing more active roles in preparing the ground for official negotiating efforts (e.g., the Carter Center). Although the State Department is responsible for official negotiations, parties to conflicts may resist exploratory talks under its formal auspices. In some cases, non-governmental organizations can better perform the role of facilitator (e.g., the Norwegian Academy of Social Sciences in the case of the Israeli-Palestinian talks).

—"Track two" facilitation needs to be non-partisan and independent. It is in the interest of the U.S. government to have at its disposal a disciplined facilitator of conflict-resolution talks for disputes that affect U.S. national interests.

Examples: In close consultation with the State Department—often with its direct encouragement—the Institute has facilitated "track two" conflict-resolution dialogues in such cases as Kashmir and Sudan and carried out related work concerning North Korea, Nagorno-Karabakh, Mozambique, and South Africa. The Institute plans to continue these efforts, with State Department concurrence, on a case-by-case basis, in these and other problem areas that may emerge from time to time.

•**Student and teacher enrichment programs:**

—High school and college instructors frequently express their need for assistance in developing new curricula for teaching about the post-Cold War era. Few alternatives exist to augment the teaching of international conflict resolution and management, and no group can bring together the rich blend of expert knowledge, policy maker experience and informal analysis that the Institute, as a national and federal institution, is able to provide. State or local programs are not likely to promote teacher training on a subject so clearly national and international in scope.

Examples: Institute teacher-training programs help educators convey understanding of the complex causes of international conflict and the variety of means available to prevent or resolve them.

The Institute is responding to a growing demand for such educational services. In four years, 120 high school social studies teachers from nearly all of the 50 states participated in Institute training seminars, meaning that approximately 50,000 students have benefited from the Institute's program. The Institute expects to reach more than 200,000 students in the next five years. Its undergraduate faculty seminar has included about 50 faculty members from about half of the states, benefiting 5,000 undergraduate students. Over the next five years, participants in Institute college-level training programs will teach more than 50,000 college students. Evaluations of these programs document their high impact on the quality of and satisfaction in teaching.

Each year the National Peace Essay Contest engages as many as 10,000 students from over 500 high schools nationwide in a program which stimulates serious reflection on a current international conflict and approaches to its resolution. Each state winner comes to Washington for a week of further enrichment, including an opportunity to hear first-hand from Congressional representatives and policy makers who struggle day-to-day with the challenges of the post-Cold War world.

The Institute has developed a much needed curriculum unit for secondary schools, and will complete during the coming year an anthology on international conflict management and resolution for graduate and undergraduate courses in colleges and universities. These materials will help fill serious gaps in the teaching literature and support the rapid expansion in the number of courses addressing these questions.

To further promote effective public outreach for its programs, the Institute has developed an Internet site and is developing its own World Wide Web page. These measures will expedite and extend the dissemination of the Institute's publications.

EFFECT OF 10 PERCENT BUDGET REDUCTION

Senator Specter: What would be the effect of a 10 percent reduction in your current agency's budget?

Dr. Solomon: The Institute is keenly aware of the budget constraints which your subcommittee must work with. Taking them into consideration, the Institute requested for its FY 1996 appropriation the same level of funding as received in FY 1995 rather than the larger amount that it judged it could use responsibly and effectively in fulfilling its mandate in today's troubled world. In real terms, the amount we have requested for FY 1996 represents more than a two percent reduction in our operating budget. In order to operate at this level, the Institute has already restrained its plans.

General Impact of 10 Percent Reduction: As described below, a reduction of 10 percent (or $1,150,000) in the Institute's appropriation for FY 1996 would substantially reduce the Institute's effectiveness in carrying out its key functions (as described in the answer to the preceding question), but would not fundamentally change the character of its programming.

If it becomes necessary to reduce the level of Institute appropriations below our FY 1996 request, any decisions on reprogramming would be subject to further review by Institute staff and final approval by the Institute's board of directors. At present, however, the Institute's management would expect to continue to give top priority to policy assessments and the training of foreign policy practitioners (and related facilitation of conflict resolution dialogues).

General Guidelines About Priorities: In giving priority to policy assessments and practitioner training, the Institute would apply the following guidelines:

> Education and Training: In the education and training program we would give first priority to current needs of professional practitioners, second priority to postgraduates and undergraduates who may become practitioners within a few years, third priority to secondary school students, and fourth priority to educating and informing the general public.
>
> At both the undergraduate and secondary levels we would give relatively greater priority to training teachers and preparing teaching materials over direct student enrichment since assisting a teacher is likely to have greater multiplier effects than assisting individual students.
>
> Research and Analysis: In our research and analysis efforts, we would give higher priority to in-house analytical and local study-group activities, would select residential fellows who would complement and participate in our in-house work and would give lower priority to grants to researchers outside the Institute. We would seek to preserve as much of this analytical work as possible since it serves as the substantive foundation for the rest of the Institute's activities.
>
> Facilitation: Facilitation of international conflict resolution dialogues depends substantially on the facts of each case. Such cases as Kashmir or Sudan are very dependent on situations which cannot be programmed in advance and would be viewed for budget purposes as activities to be funded from existing research and analysis and education and training funds.

Management and Administration: We would seek to keep expenses for Institute management and administration to approximately the same proportion of the total budget as they are currently.

Effects of 10 Percent Reduction: Using these guidelines, a reduction from $11,500,000 to $10,350,000 would result in the following program changes. These changes would affect all categories of Institute expenditures, but in particular would include cuts in expenses for personnel, invitational travel, printing, rent, and other services.

Education and Training:

•Elimination of some student enrichment activities (i.e. reduced expenses for high school peace essay contest, elimination of summer interns, and indefinite deferral of the Matsunaga Scholars Program).

•Some increase in support for practitioner training (which, even though the overall budget may be smaller, the Institute would seek to continue to develop).

•Preservation of funding for preparation of teaching materials for college undergraduates, funding of some fellows to work on cross-cultural negotiation, and selection of conflict resolution training as one of the topics selected for next year's solicited grant cycle.

Research and Studies/Special Programs: Principal reductions would be in grants and fellowships. Reductions in grants would be in the unsolicited category.

These changes would also include a consolidation of in-house analytical work. The Institute would consolidate special initiatives and research and studies/special programs and merge the respective budgets into a single amount for programming purposes.

Outreach and Public Information: Awards of Matsunaga Medal of Peace would be eliminated. Work on a national library network and on general educational outreach would be reduced.

Management and Administration: Expenses for operating supplies, computer purchases, computer upgrades, and similar items would be reduced.

The principal effects of a budget reduction of 10 percent would be to focus the Institute much more on immediate questions and on people who are currently engaged in dealing with world conflicts. Outreach to younger generation leaders-in-training would be significantly cut back. Other effects would include:

(1) In the area of research and analysis, reductions in grant and fellowship funding would restrict the Institute's ability to maintain and develop the broad network of analytical talent it has constructed

within the policy and academic communities since its creation. It is this network that enables the Institute to respond quickly and flexibly in mobilizing qualified specialists to address the changing challenges of the current world disorder.

(2) In education and training the reductions would require cutting back much of what the Institute has been able to accomplish at the high school level and plans to carry out at the undergraduate level. thereby reducing its ability to operate at all educational levels from high school through undergraduate and graduate school. The Institute considers its work at the high school level to be important for its long term benefits to the country in terms of a better informed and engaged citizenry and the next generation of foreign affairs practitioners.

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